

THE FUTURE OF U.S. FOREIGN TRADE POLICY

THURSDAY, JULY 13, 1967

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to notice, in room 1202, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representatives Boggs, Widnall, and Rumsfeld; and Senator Miller.

Also present: John R. Stark, executive director; John B. Henderson, staff economist; Donald A. Webster, minority staff economist.

Chairman Boggs. The subcommittee will come to order.

We are pleased to have two distinguished witnesses, Mr. Aurelio Peccei, who is an outstanding industrial and business leader in Italy. He has probably done as much to contribute to the outstanding industrial development of Italy since World War II as any single man.

I would like to make a part of the record at this point his complete biographical sketch.

(The biographical sketch follows:)

BIOGRAPHICAL SKETCH OF DR. AURELIO PECCEI

Born July 4, 1908 in Turin, Italy, he holds a summa cum laude doctorate in Economics from the University of Turin. During the war he was an active member of the underground Resistance Movement in Italy; and was jailed during one year for that activity.

He joined the Fiat Co. of Turin in 1930 and has been member of the Steering Committee since 1950. He is head of the Latin American Affairs Division and Chairman of the Board of Fiat Concord; the industrial subsidiary in the Argentine.

He has been President of Italconsult, Rome, the foremost firm of engineering and economic consultants in Italy, since its incorporation in 1957.

When Fiat took an interest in the Olivetti Co. of Ivrea in May 1964 he was appointed President and Chief Executive of the Company for three years. Having completed his mission he remained with Olivetti as its Vice Chairman.

Chairman Boggs. Also the Right Honorable Kenneth Younger, who has had a distinguished career. He was a Member of Parliament from 1945 until 1959, during which time he held the positions of Parliamentary Private Secretary to the Minister of State from 1945 to 1946, and to the Under Secretary of State for Air, 1946 to June 1947, and the Chairman of the UNRRA, Committee of Council for Europe from 1946 to 1948.

I will also include in the record the complete biographical sketch of Mr. Younger.

(The biographical sketch follows:)

BIOGRAPHICAL SKETCH OF RT. HON. KENNETH YOUNGER

Kenneth Younger was born December 15, 1908 and educated at New College, Oxford. During World War II he served in the British Army Intelligence Corps.

He was elected to Parliament in 1945 where he served as a Labour Party member until 1949. During this time he held the positions of Parliamentary Private Secretary to the Minister of State (1945-46) and to the Under-Secretary of State for Air (1946-47), and Chairman of the UNRRA, Committee of Council for Europe (1946-48).

He became Parliamentary Under-Secretary of State for Home Affairs from 1947-50 and was Minister of State for Foreign Affairs from 1950-51.

In 1953 Mr. Younger accepted the position of Joint Vice-Chairman of the Royal Institute of International Affairs and in 1959 became Director of that organization.

Chairman Boggs. We are happy to have you here, Mr. Younger and Mr. Peccei.

Mr. Peccei, you may proceed first. And the other members of the subcommittee will be coming along.

We appreciate the long journey that you have made.

STATEMENT OF AURELIO PECCEI, VICE CHAIRMAN OF OLIVETTI, MEMBER OF THE STEERING COMMITTEE OF FIAT-TURIN, AND PRESIDENT OF ITALCONSULT, ROME, ITALY

Mr. PECCEI. I wonder, Mr. Chairman, if I may make some side comments to my prepared statement?

Chairman Boggs. Certainly. Proceed in any way you wish.

Mr. PECCEI. First of all, I should like to thank you for the honor that you have done me with your invitation to appear before you, thus giving me an opportunity to express some personal views with regard to certain aspects of international trade.

It is particularly gratifying for me to address you, gentlemen, since I am fully aware of the great contribution that your subcommittee has made, and is making, in the continuous review of the various problems which beset the expansion of international trade.

We in Europe have been particularly impressed by, and indeed we owe you a debt of gratitude for the initiative that you have taken some years ago in clearing the ground and making it possible for the United States to adopt the 1963 Trade Expansion Act. We would have had no Kennedy Round but for your enlightened foresight.

I propose to discuss today three main areas in which international cooperation and bold American initiative are required; namely, the post-Kennedy Round prospects, East-West trade, and trade relations with developing countries. There is nothing novel in this approach, but these are undoubtedly the main issues before us.

With regard to the Kennedy Round, I believe that one can say that the world has gotten adjusted even too quickly to the extraordinary technical results which have been reached. It seems to me that we haven't yet had the time to appreciate and appraise the fact that the negotiations which went under the Kennedy Round name have pro-

duced the greatest tariff reductions known so far. It is true that the original goals have not been attained, and that therefore there is a residue of custom duties still barring a completely free international trade. Nonetheless, one could ask legitimately the question whether there is any sense in maintaining—after all—a custom structure so small, so insignificant and yet so expensive to administer. In many cases, isn't this residue more a fiscal than a protective feature? Certainly, this is true for the external tariff of the European Economic Community. My hope is that in due course the governments concerned will draw the logical conclusion and muster the necessary strength to dispose entirely of it.

The Kennedy Round is to be applauded for its outstanding technical results, but even more so for its political implications. There were and are still latent, in every country in the world, powerful protectionist forces. The political implication of the Kennedy Round is that these forces have been deterred, if not finally defeated. Had the Kennedy Round failed, or had it produced inadequate results, we would be witnessing their resurrection, and ours would be an uphill fight.

But those who believe, as I do, in an ever freer international trade, cannot rest in complacency. One large area has remained unattacked by the Kennedy Round: the whole diversified cumbersome area of nontariff obstacles. And this provides the ground for our work ahead. Permit me to say that in this respect as a European I look to your subcommittee with confidence and hope. No country goes blameless for having devised, through an ingenuity that would be better placed in the promotion of free trade, all sorts of unilateral and objectionable measures. It is quite obvious that each one of these measures is justified by Governments responsible for them on various grounds, and that all of them are deep rooted in each of the national economies concerned. Nevertheless, very few of them could stand the test of broader international interests.

If I may give you an example, in the opinion of people in my country and the rest of Europe, this is the case of the countervailing duties on imports from Italy of fabricated structural steel units established by a Treasury Department's decision of April 21, 1967, right on the eve of the Kennedy Round successful conclusion.

This decision is based on the Bounty Act of 1890, which in 70 years was applied only in a very few cases. Now, the Treasury Department modified its longstanding interpretation that the legislation does not apply to rebates of internal taxes by the exporting country; and imposed countervailing duties by unilateral action, instead of proceeding by international consultation and agreement in OECD, as all the member states unanimously agreed, or in GATT, which, by the way, would have assured that every country and every party would be treated equally, instead of selecting a specific product from one country.

I have mentioned this example, among others, because of the discord, bitterness, and malaise it is raising in Italy:

I believe that after the Kennedy Round the time has come for a sincere soul-searching analysis. It is my hope that—for the sake of

international cooperation—a stock-taking operation, painful as it may be, will be promoted on the widest possible international basis.

I am aware that such exercise has been already started in the United States on a national basis, but an international approach is needed. I am confident that through an objective analysis, through a sincere give-and-take attitude, a process of gradual elimination will be initiated. For too long Americans and Europeans have been accusing each other of ill-doings, with the result that only the faults of the other side were emphasized, in a fruitless and frustrating exercise. A more direct confrontation might serve the more constructive purpose to turn the criticism inward. In this connection may I suggest that it might be well that the trade policy study President Johnson has asked Ambassador Roth to undertake over the next year be matched by or combined with a similar study to be undertaken by the EEC, which should be prompted to do it, and another by EFTA on the United Kingdom.

Some quiet, off the record contacts among the Atlantic protagonists of world trade may serve some of the purposes outlined in the very good paper presented to this subcommittee by Mr. Robert Schwenger, that is, to coordinate the economic activities of governments—at least across the Atlantic—without resorting to arbitrary political pressures.

Such an approach is even more necessary now that, having almost dismantled the custom tariff fortress, governments will be subject to severe pressure and tempted to restore protectionist policies and practices on a nontariff basis. No doubt, we must be vigilant.

When looking to American-European trade relations, assuming that the process of elimination of tariff barriers may continue to the very successful end, the nontariff area offers the greatest opportunity for further cooperation.

Some adequate arrangements will have to be made, also, with regard to the implications of the growing technological gap between the United States and Europe. As you know, we are faced here with a rather hazy problem, because a clear-cut definition of the gap is still to be found. Nevertheless, I believe that informed circles would not any longer doubt that a gap exists.

Specifically, the problem that affects international trade is the question as to how technology should be transferred from one country to another and from one company to another.

Here again, I believe that a liberalistic approach should be adopted, and that the countries which lag behind in technological development should not shield themselves under a protective structure, whether custom or otherwise, lest they are condemned to a progressive underdeveloped status; conversely, countries which are ahead in technological development, should not indulge in monopolistic attitudes lest they themselves are tempted by ephemeral advantages and thus isolate themselves from the rest of the world.

We must keep in mind that the main feature of our contemporary world is interdependence, and that any action intended to ignore reality can only produce damages for all.

I would like to mention in this connection that an important Conference on Trans-Atlantic Technological Imbalance and Cooperation was sponsored by the Scientific Technological Committee of the

North Atlantic Assembly—of which Senator Javits is so prominent a member—and the Foreign Policy Research Institute of the University of Pennsylvania; and was held last May in Deauville. After an extensive study of the problems involved, the conference reached some conclusions, which may be of some interest to this subcommittee, as they are related to the exchange of goods and know-how.

The continuation of the conference work which was decided at Deauville may receive moral support from this subcommittee.

Mr. Chairman, I have here the final report of the conference for this subcommittee, if you will allow me to put it at your disposal.

Chairman Boggs. It is so ordered.

(The report follows:)

REPORT OF THE CONFERENCE ON TRANSATLANTIC TECHNOLOGICAL IMBALANCE AND COLLABORATION*

(Sponsored by the Scientific/Technological Committee of the North Atlantic Assembly and the Foreign Policy Research Institute of the University of Pennsylvania; Hotel du Golf, Deauville, France, May 25-28, 1967)

INTRODUCTION

A conference dealing with the problems of technological imbalance in the Atlantic Community was held in Deauville, France, from May 25-28, 1967. The conference chose to work in five different panels which dealt with the following problems:

(1) *Education*.—Higher education (problems of scale, nature and quality), implications of cultural factors for scientific creativity, education in institutes of technology, university or other educational facilities, source and adequacy of educational funding.

(2) *Scientific Research*.—Status of pure research, basic research base, technological transfer organizations, information transfer schemes including common standards for documentation, reporting, institutional mechanisms.

(3) *Industrial Management*.—Size of corporations, national/international characteristics, size of national markets, impact of patents and licensing regulations, scope of U.S. investment in Europe, barriers to collaboration, management education and training, competitive situation of U.S. and European corporations in various industrial lines, attitudes toward privately financed research, adequacy of privately financed research.

(4) *Governmental role*.—Government investment in Research and Development (defense-oriented and non-defense-oriented), government contract policies, defense spin-offs, weapons standardization, security restrictions (i.e., McMahon Act), leadtime problems, military collaboration, political-economic competition, and rivalry (i.e., the SST), taxation policies (i.e., amortization time).

(5) *Technological Development and Application*.—Topics in this seminar dealt with present status, level of achievement, and priority with respect to: electronics, computers, avionics, ceramics, metallurgy, nuclear energy (peaceful and military applications), life matter (e.g., biophysics, biochemistry), problems of technological transfer.

I. DIAGNOSIS

The panels began their deliberations by asking the following questions: Is there a technological gap and will there be a gap in the future?

The answers varied according to the differences in definitions of the words "technological" and "gap" as well as to conflicting judgments. The differences of definition of "technological" derived from differences in focus on such phenomena as scientific research; the application of research to production; the marketing of production; investment, government and private, in research and development; as well as restraints upon political independence brought on by disparities in politically relevant technological resources.

*A draft report was presented at the Plenary Session of the Conference on the morning of May 28. This report incorporates suggestions and criticisms made at that time by the participants.

These different definitions of "technological" made it difficult to agree on whether or not there was a gap because each person's reference was not the same. As the panels progressed, the referents became clearer, and a consensus was built which included the greatest number of participants. It was generally agreed that there was an overall imbalance between Europe and America, but in a number of specific industries and in certain areas of pure science Europe enjoys parity and even superiority. However, the number of such sectors was relatively small and the United States was seen to have a decided edge, not only in the overall conditions, asserted to result in technological growth, but in the specific results themselves, especially in the critical industries of aerospace, electronics and computers.

Thus, defining "gap" as an uneven distribution of technologically relevant resources, it was agreed that such a gap existed. There was also a sentiment that, even in the local circumstances where now the gap was not pronounced, the future was threatening because of the large scale impetus to technology which the Americans were able to stimulate in their society. Furthermore there were gaps within Europe itself and between Europe and the undeveloped nations. Under these circumstances, the panelists turned to the causes of the disparities identified.

While there is much variation in the individual cases, reflected in the different examples discussed in each panel, a number of common themes can be identified which lay at the base of the technological imbalance. Large scale European-Atlantic differences in values, mobility, institutional structures, size, and rigidity were seen to account for the discrepancies. Values or attitudes which might foster behavior leading to technological growth were found to be relatively weak in Europe. Whether the issue under discussion was the attitudes toward accepting innovation and change, or working to increase the profit of a firm, or moving to turn pure science into applied technology, the values of Europeans were deemed to be less supportive to technology than those of Americans.

Mobility was another common theme. The reference varied from one panel to the other. Some stressed the relatively greater capacity of Americans for geographic mobility, while other stressed the relative ease with which Americans enjoyed occupational mobility between universities, research institutes and the industrial sector. In each panel, the relative dynamism of American society was underlined as a major cause of technological superiority deemed to be dependent on the free exchange of individuals and information throughout the society. Special attention was paid to the link between the generator of science, the university, and the applicator of science, industry. The link was seen to be highly productive in the United States and relatively weak in Europe.

Related to the differences in mobility, are the differences in institutional structures. Communications between institutions and within institutions were deemed to be better in the United States than in Europe. In the new pragmatic political environment of the United States, government is allowed and even encouraged to play a major role in developing the U.S. technological base. Government aids industry by subsidizing research in the early non-profit stage. Industry profits from spin-offs from government initiated projects. Mutual benefits accrue from the structural relations which industry, government, and the university have evolved with each other. The relative absence of structural barriers against trade and the relative ease with which the different economic, political, and intellectual institutions can communicate with each other and adapt to changes in the needs of one or the other partner, all these assets of the dynamic environment were considered by many to be at the root of technological disparities.

For others, size was counted as a major asset in favor of the United States. Size of firm, to allow for capital formation and size of production facility, to allow for small unit cost, were said to work in the favor of the United States. The size of market was judged as an especially important and, perhaps, critical factor. However, some panelists argued that size alone was not the key factor. Some small firms have managed to be extraordinarily innovative. It was pointed out that the critical role of size varied from one phase of product development to the other, and from one sector to the other.

In all panels, mention was made of the relative rigidity of European factors of production. The flexibility and adaptability which characterizes social and economic institutions in the United States was deemed as a useful asset of a technologically receptive society. Unpredictable demands of a rapidly developing

technology are most readily met in a society which is flexible and willing to evolve new forms of person-to-person, institution-to-institution relations. The relatively larger sector of American society which has been educated on the college and university level, contributes to that flexibility and mobility which enhances employment opportunities.

Among the factors judged by most conference members to be at the base of technological differences between Europe and America, the disparities of values, mobility, structure, size, and rigidity were viewed as the most serious. Their influence was great because they were related to each other in an interacting system in which the multiplier effect of the American assets made the potential of the United States appear enormous and European disadvantages appear to be part of a vicious circle.

The pessimism which appeared in some panels as a result of diagnosing the problem was relieved by a number of alternative views. It is evident that there has been substantial success in Europe. There are many examples which cast doubt on the assumptions in the diagnosis. Evidently, there are firms which, applying technology, successfully compete with the United States, even in the North American home market. There are industries—notably, nuclear energy, metallurgy, and chemicals—which have readily technologically equalled or surpassed their competitors in the United States. Obviously, the vicious circle can be—and has been—broken in many technological areas.

The examples of success show that a diagnosis which excludes the possibility of remedial solutions is too pessimistic. Nonetheless, these are severe restrictions on Europe's ability to rapidly accelerate and close the gap in a short time. The interaction of factors is complicated. It requires systematic treatment. While there was a consensus on the list of important factors, there was no consensus on their relative importance and the nature of their interaction. Scientific and systematic methods of analysis must themselves be brought to an understanding of the process of technological growth. The conference participants had no such systematic knowledge available to them. Differences of opinion derived not only from different values, but also from different understandings of what is needed to stimulate technology. It was clear from differences in national and sector performances, that the problems are complex and in need of further systematic effort.

However, no one underestimated the magnitude of the assignment. A large body of interacting and complex factors had to be moved together to make a major assault on the problem. To do this, goals had to be defined which would capture the attention of relevant parties and motivate them to a major effort. However, when the panels turned their attention to the goals which might provide the unifying and motivating impetus, the agreement on causes gave way to disagreement on aims. While the motivating symbols of past regional co-operation still commanded attention, they did not now suffice to ensure consensus. Instead, more emphasis was placed on solving problems by functional categories. Regional loyalties to nation or to Europe or to the Atlantic area were determined by the pragmatic criterion of their respective relevance to the solution of problems at hand.

In sum, the gap was recognized. Though its seriousness was evaluated differently, no one wanted to allow present forces to continue in the present direction. Whether the reasons for action be political, economic, social, or some mix of these motives, action was desired by the greatest number of participants. The panels then turned their attention to a program for action.

PART II—RECOMMENDATIONS

A. GENERAL

In dealing with such a complex problem as the Transatlantic technological gap it is much easier to diagnose the causes of disparities than it is to present prescriptions for eliminating them, let alone to achieve consensus as to which prescriptions should be adopted. The recommendations which follow reflect a consolidation of those reported by the various panel chairmen as both desirable and to a lesser extent feasible. Their presentation does not imply any endorsement by individual panel members or by the conference as a whole. These recommendations were preceded by discussions of American and European environments and goals respectively.

Great achievements result from sustained and compelling motivations along with the dynamic competitiveness of the American system. The source of many American accomplishments in science and technology can be traced, in part, to the successive challenges presented to the United States by the Second World War, the cold war, the Korean conflict, the space race and involvement in Vietnam. Which challenges will evoke a comparable European response or which goals can the peoples of Western Europe pursue which will similarly motivate the nations of Europe to accelerate their technological capabilities? Some of those might be:

1. *The Soviet Challenge.*—Under the American umbrella Europeans never felt compelled to meet, by themselves, the challenge of Soviet power. As long as the growing Soviet industrial and technological base is perceived by Western Europeans as posing no threat to their societies, the peoples of Western Europe are unlikely to make great technological exertions to counter balance Soviet technological advances.

2. *American Technological Hegemony.*—The potential threat to European independence posed by this possibility may motivate some but not all Europeans to match American technological powers. At the very least, however, most Europeans would like to improve their technological status in order to bargain more effectively with America regarding technological disparities.

3. *Solving Common Problems.*—The social, political and human problems posed by urbanization and environmental pollution are now threatening the quality of human life for people living in urban areas in most parts of the globe. A cooperative search for solutions to these new problems may hasten technological progress.

4. *Aid to Developing Nations.*—Modern technology is compressing the distances that formerly separated peoples. If the gap between the well-being of peoples living in the "Third world" and those living in the industrialized nations grows, the world may become politically more unstable than it is now. There may be a common European and American interest in exploiting technology and making it available to the new nations.

None of the foregoing goals may provide sufficient motivation to the Western European peoples to take all the measures required to reduce, if not eliminate, the existing transatlantic technological gap. Nevertheless, partial response to any of these challenges may inspire a determination in Western Europe to reduce the imbalance between the new world and the old.

Throughout the conference it was generally agreed that concentration of effort and new experimentation are required within each country and on a European basis. Though the problems themselves are functional, their solution ultimately requires both private and political action at the national, European and Atlantic Community level. Hence, the conference proposals are grouped into three categories: National, European, and Atlantic Undertakings.

B. NATIONAL UNDERTAKINGS

The recommendations put forward include those concerned with long-term action affecting structures and attitudes, and those for immediate action.

I. Education

(a) The expansion and democratization of higher education should be promoted so as to extend the pool of competent participants in productive functions and improve exchange and mobility between employment opportunities. This should be accompanied by a systematic effort, which is now proceeding, consisting of providing programs of studies corresponding to requirements and capacities at the various levels.

(b) The system of education should be adapted to the new structures of the world of today, where the scientific approach has become an element of culture and this end in view:

(1) the training of students in political, social and economic sciences and the humanities, such as history and law, should be supplemented by an introduction to technological problems and an education in basic science.

(2) technical training should be supplemented by the teaching of political, social and economic science and business management.

(c) New disciplines should be introduced into the traditional teaching of scientific subjects. As scientific subjects and others concerned with the manage-

ment of businesses are both involved in technological development, they should be made the subject of programs of studies in higher education.

(d) Promising young students should be drawn into technical disciplines, and more of them should be encouraged to prepare themselves for careers in the application of the natural and social sciences in business and industry.

In view of the reduction in the number of students currently attracted by scientific subjects, it is essential to reverse this trend to intervene both at the secondary education stage and subsequently to organize programs of higher education which, being adapted to the modern world, would promise to stimulate interest, and enthusiasm, for demanding subjects.

Continuous education in the technological field should be encouraged by industrial firms. This could be accomplished by staff participation in technical retraining or advanced training courses lasting from one to six months and taking place outside the firm. The teaching profession would have to develop many programs adapted to modern industrial needs. The organization of these programs will facilitate collaboration between industrial and educational circles.

None of these proposals are very new; many of the methods have already been applied, and they do not have the same importance for all the countries of the Atlantic world. Nevertheless, it is well to emphasize these guiding principles, if only to stress the pressing need for such efforts.

2. Research

While the excellence of much of the fundamental research of Europe is evident, many reforms are necessary to increase its effectiveness. This is a matter of urgency since such research is a pre-requisite for increasing technological vitality for the following reasons:

(a) it is vital to the quality and scope of the educational process;

(b) it produces new knowledge available for development and industrial innovation;

(c) without a first class research effort, the level of scientific awareness of a nation can hardly provide a critical assessment of the significance of scientific developments throughout the world which have high technological potential;

(d) advanced study, associated with research is necessary for the provision of higher skills;

(e) the encouragement of inter-European cooperation should be considered as a means of extending and complementing national efforts.

Considerable barriers to the full deployment of European effort exist in the rigidity of many of the national systems and institutions. Recommendations are therefore made:

(1) to encourage mobility of scientists between European countries;

(2) to improve university-industry relations.

3. Mobility of Scientists

(a) All European governments should recognize university degrees in science and technology granted by the other countries. (Discussion of equivalence of diplomas is likely to be sterile but employers and especially research institutes are well aware of the value and nature of degrees in the main countries. Degrees in medicine pose special problems preventing mutual recognition.)

(b) Governments should make it possible for foreigners to occupy university chairs where this is not now possible. Provision should be made for the appointment of visiting professors from abroad.

(c) Consideration should be given to means of maintaining pension rights on movement from one country to another and also that social security schemes should be extended where necessary to insure medical and other benefits.

4. University-Industry Relations

(a) It is highly desirable that mobility between universities, industrial firms and government research laboratories be encouraged. Furthermore, it is to the benefit of both firms and universities that many other forms of cooperation be extended including the acceptance of suitable research projects by universities, the use of university staff for advice, the recognition of good work completed in industrial and governmental laboratories for higher degree purposes, and the participation of industrialists in special university courses and seminars.

(b) It is specifically recommended that each country should initiate dialogue between industrialists and academics to assess the existing situation on such

matters, to make specific recommendations and initiate schemes of cooperation, International exchange of such schemes is also desirable.

(c) European scientists should be taught to appreciate the importance of the industrial sector of society. To maximize collaboration between the universities and industry, opportunities should be sought and devices worked out to promote greater intimacy between them in enterprises of mutual benefit.

(d) To promote further interchanges and improved collaboration between industry and the world of education, professors should be granted one or two sabbatical years, during which they have the opportunity to participate in industry as research workers or consultants or are employed part-time in industrial laboratories. Conversely, businessmen could be invited to deliver lectures at universities.

6. Government

(a) To encourage the greater mobility of men and information, improve the management of this mobility, and improve the partnership between the State and industry and education in the pursuit of certain challenging national aims, European governments should:

(1) promote greater mobility of men between government, industry and the universities;

(2) develop clearly defined machinery at the national level for deciding priorities of a science and technology policy in order to be able to participate effectively in a European science policy.

(b) Computer technology should be dealt with on a European basis as soon as possible. Until appropriate arrangements are worked out, it is necessary to tackle it first of all on a national level, and subsequently try to broaden the field and develop teaching in the "soft-ware" fields and computer utilization.

C. THE EUROPEAN LEVEL

1. Education

(a) Young engineers leaving their college or university should be encouraged to follow training courses in industry in countries other than their own. (Such courses should last one or two years; they should not compromise the future career of those concerned, but could provide a good means of effecting the transatlantic transfer of technologies. Even if a certain amount of emigration resulted from such a scheme, the advantages arising from the return to Europe of engineers with their training completed in this way would largely compensate for such loss.)

(b) A few European strong points of research should be developed on an experimental basis choosing new, interdisciplinary subjects. (As an example, computer soft-ware was suggested.)

(c) A European Institute of Science and Technology should be established. (The organization of a European postgraduate course with an international faculty and students in all subjects concerned with technical progress, ranging from scientific subjects to their industrial application and including the basic sciences, economics, sociology and psychology, could be not only a considerable stimulant for the various European educational systems but also a rich source of engineers trained for the requirements of our society. The lengthy discussion of this proposal surveyed the financial problems involved, the necessity for a suitable site, the recognition of its diplomas by the various countries concerned, and the necessity for close cooperation at government and private enterprise level, both among European countries and between them and the United States).

2. Industry

(a) European industry should seek to prepare and promote a program for the Governments of Europe to eventually computerize the economic and administrative activities of the Continent with due consideration for the hardware, the software, the communications and the education of personnel needed for the efficient execution of the program.

(b) Multinational companies should form themselves into an active group to make available generally the benefits of their experience in organizing business across national frontiers.

(c) The Conference should draw the attention of European Governments to the magnitude of the gap in the aerospace sector as between Europe and the United States, and stress the urgency of deciding what part Europe wishes to play in this sector and what aims it wishes to pursue, and upon what European industry should concentrate its efforts.

3. Government

(a) An overall strategy for European science and technology should be developed by a common authority. While welcoming the progress being made on the basis of bilateral and *ad hoc* arrangements, these must be integrated, as soon as possible, within an overall strategy.

(b) European public authorities must seek to harmonize their requirements, for instance in the fields of computers, communications equipment, aircraft and defense equipment.

(c) Common requirements should be established to encourage the development of trans-national consortia and companies.

(d) Certain major joint European development projects would also be a useful means of promoting the development of European companies or consortia. An example of such a common development project would be the establishment of a common European Information and Documentation Center for the whole of science and technology. This Center would provide information rapidly to the major centers of research in industry, universities and governments throughout Europe. It would work closely with similar centers in the United States and other regions. The Center should aim at a highly selective approach to information acquisition and exchange in order to minimize the dissemination of irrelevant or trivial documents and data.

(e) European projects should have clearly defined goals and in each case be run on the single director managerial principle.

(f) European Governments should take early action to facilitate supranational corporate activities, including the creation of a European company statute. Simultaneously, fiscal and monetary legislation and practice should be harmonized and standards and measurements unified. Efforts should be made to accelerate the removal of the remaining obstacles to the completely free movement of goods, persons and capital between European nations.

(g) Every encouragement should be given to efforts to simplify and harmonize existing patent procedures, and, if possible, to establish common European or Atlantic machinery for patent searching and recognition.

D. THE ATLANTIC LEVEL

Common policies in science and technology for Europe should be developed to create a more fruitful partnership with the United States through the exchange of information and know-how, and by further negotiations to remove nontariff barriers to trade and open up public buying on both sides of the Atlantic to competitive tenders from the partner Continents.

The work of the Conference should be continued in some form in order to promote closer ties between the academic and industrial communities across the Atlantic.

Mr. PECCEL. Before I turn to other subjects, I should like to spend a few words on the European Economic Community and its relations with the world.

On the positive side, I should like to mention that not only the process toward the completion of the customs union has practically come to a successful end, but also the gradual movement toward an external common tariff is reaching its prescribed final level.

Even before this level is reached, as a result of the Kennedy Round the Community has accepted to lower it beyond the target established by the Rome treaty. This is a significant factor, which substantiates a posture of the Community itself as an outward-looking system.

The process of economic integration among the six member countries has had very positive effects in expanding their reciprocal trade, but, more significant, has made of the Community the first ranking

trading bloc in the world, and its external tariff also ranks among the lowest in the world.

Having made these few positive remarks, I will admit frankly that there are certain negative aspects as well. In the first place, the Community has been too busy, and justifiably so in holding its own structures, and has, therefore, been forced to postpone consideration of other matters, and particularly the establishment of a common trade policy, of which there have been so far only scattered examples.

The Community has also suffered from a certain imbalance, due to its limited membership. Most Europeans—and I am one of them—are openly in favor of enlarging the Community and admitting other members.

However, it is too early to advance any prediction at this stage as to the outcome of the new application submitted by the United Kingdom, and as to the prospects of other countries to follow suit.

With regard to the Community position regarding developing countries, one can detect a certain apparent contradiction. In fact, on one side, the Treaty of Association with African States provides a model of sound cooperation insofar as preferences are established to the benefit of trade with the African countries concerned, financial assistance is provided through the European Development Fund, and broad technical and cultural assistance is also envisaged. On the other side, developing countries, which are not part of this broad scheme, and do benefit from it, claim that they are discriminated against. A claim, however, which is not confirmed by statistical evidence, since trade between the Community and nonassociated developing countries has increased remarkably in the last few years.

Whether a similar arrangement could be devised on a worldwide basis as between all developed and all developing countries, is a question that involves the attitude and the political will of many governments and not only of the major ones. Nonetheless, I believe that one could venture to say that the Community, without renegeing on its obligations, freely undertaken with the associated states, would not be opposed to any broader arrangement, as is evidenced by concrete proposals submitted by the Commission to the Council of Ministers at the beginning of the year 1967.

With regard to East-West trade, I should like to assure you that I am fully aware of the deep and serious political implications which dominate the issue in your country, particularly at this juncture. May I be permitted to say that we in Europe recognized at an earlier stage the vital importance of establishing lively trade relations with the East, in the firm belief that we would be helping a positive political development. In taking this attitude, we had to accept the sometimes unpleasant fact that societies and economies in Western and Eastern Europe, including the U.S.S.R., were different, and that there was no use in our trying to convince the other side to follow our pattern, nor would it have been practical to wait for the other side to become more similar to us in structures, policies, and practices. To recognize this essential fact meant for us to introduce flexible adjustments in our own methods and approaches. To deal with Government agencies in those countries, for instance, rigid and cumbersome as they are sometimes, is certainly not so pleasant and congenial as to deal

with our Western business counterparts. However, through time, we found that a certain evolution had taken place among the Eastern executives with whom we were dealing. They have come nearer to our point of view; they might rightly say that we have gone nearer to their point of view. In sum, we came to understand each other better.

We find that prospects for business in the U.S.S.R. and Eastern Europe are increasing and expanding continuously. There are, of course, severe limitations, besides mentality and methods. One main limitation is a very classical one; namely, that trade being by necessity a two-way avenue, we must, perforce, conceive of exports and, simultaneously, of imports. And there are not very many products manufactured in those countries which are readily acceptable to our markets. Furthermore, in order to accelerate economic development and actively participate in it, we are confronted with the expectation that we should extend ever longer credits. In this context, a rather unruly competition is taking place among Western suppliers. A sobering international action to bring this factor under reasonable control would be very helpful.

The United States has kept somewhat aloof so far, and in this connection I should like to express the view that a more active U.S. participation in trade with Eastern Europe not only would have positive political implications and would give momentum to the development process of that area, but also might help in establishing more acceptable rules. Personally, I regard the Soviet Union and Eastern Europe not as a hunting reserve for Western Europe, but rather as a promising ground in which international trade may expand profitably for the world at large. I feel sure that Europe would welcome a healthy competition there with the United States.

Of course, one must keep in mind that in Socialist countries a centralized procurement system prevails; therefore competition should take a very special connotation and be obviously different from the kind of competition that businessmen meet in market economies.

I am not a politician, and as a businessman I might have a slanted view. Nonetheless, permit me to say that through my contacts and transactions with East Europeans I have acquired a firm conviction; namely, that trading with them is an effective way to promote better political understanding. I would go as far as to say that the great political issues still dividing West and East would, per se, provide recurrent incentives to perpetuate the cold wave, whereas sound trade relations have proved to be a thawing factor. The knowledge of reciprocal requirements and supplies, the comparison of each other's technological achievements, the prospect of a lively exchange, undoubtedly are solid prerequisites for the establishment of a psychological and political situation such as prevailed at Glassboro, and, hopefully, for its aftermath.

In this connection, Mr. Chairman, I have read with great interest your statement that this subcommittee's study is the long view of the U.S. foreign trade policy. But then we, the United States and Europe, should make up our mind as to what are our objectives during the next 10 to 12 years vis-a-vis the U.S.S.R. and Eastern Europe. If our objective is to bid for more time and defer any action likely to strengthen

the Eastern economies, even at the risk of making it more difficult and costly to bring them over to our side in the future, then we may simply go ahead piecemeal as we have done so far, because the scattered agreements and contracts the European firms have entered or may enter into in the future with Soviet bloc organizations, however important some of these contracts may be, would not appreciably change the overall situation of these countries relative to our situation. If on the contrary our objective is to try and bring the vast markets, from the Iron Curtain to Vladivostok, into closer interdependence with the Atlantic markets, and seek to influence through trade and economic cooperation the entire development of these nations, then we must be prepared to make a bold step forward. We must recognize that to help their economies move toward the mass consumption of more sophisticated goods is a rather long term proposition which will require a well-planned combined East-West effort. And the more clearly and the sooner the United States and Europe define their common policy in this respect, the better it is for both of them.

Finally, with regard to trade with developing countries, I should like to say that I am looking at the issues involved with no little concern. This is due to the fact that I am not satisfied that developed countries have made the necessary effort so far in order to devise agreed-upon solutions.

We have had a first round in the United Nations Conference on Trade and Development in Geneva in 1964, and now we are approaching the second round, which is scheduled in Delhi in early 1968. The first conference served undoubtedly the purpose of focusing on the myriad of problems. Solutions were also recommended more or less realistically. The second conference should serve the purpose of assessing achievements and suggesting further steps. But are we really in a position to do so? In my opinion we are not.

I will not use here the wealth of statistical information which has been produced in the meantime to prove that those underdeveloped remain such, and that in relative terms they are more underdeveloped than before. There has been a distinct lack of unity in the industrialized world in spite of the best intentions displayed and some efforts undertaken in various international fora. I would venture to say that perhaps too much emphasis has been placed on the expected cure-all implications of trade. If massive trade were possible purely through intergovernmental debates, then I should say that all the words which could be spent have been spent. But trade is above all a technical matter, which requires structures, know-how, competitive strength, distribution skill, quality, prices, and none of these factors can be expected to become real by a fiat. Developing countries have indulged in claims and recriminations; developed countries have indulged too much in lecturing. Unless we recognize that inducements are only the starting point of a long and painful process, I am afraid that we will get nowhere.

To promote trade to the benefit of developing countries, in the order of magnitude which would be required, we must accept in practice, not only in principle, the need for an international redistribution of labor and production. The principle has been heralded forcefully and insistently, but the practice has not yet been adopted, if not in a token measure.

This is an extremely unpalatable proposition, since it entails first of all a bold action within our own countries, and also a willingness to assume delicate political and economic consequences. It is in fact a double-edged blade, because we should decide gradually to eliminate within our own economies certain productions, even though the most elementary, and at the same time open our doors to the imports of the same products from abroad.

In the process, domestic production and import production will have to compete on an uneven basis, and instead of pursuing protectionist policies which would be called for according to classical patterns, we should extend a preferential treatment.

This is undoubtedly one of the hot issues which will be reiterated in Delhi after Geneva. Are we prepared to face it? I have singled out this problem and will not take any more of your subcommittee's time in elaborating on others. The question that this problem arouses is whether the road which has been taken by UNCTAD at Geneva is going in the right direction. At a time when aid is declining and is becoming increasingly unpopular, both in donor and in recipient countries, the question is whether enough groundwork has been done in order to have trade replace aid. My own view in this connection is that too little has been done to establish the necessary technical and structural prerequisites, and too much political theory has been thrown on the world's lap.

One important fact should be borne in mind, that is that international trade is no longer going to be governed by a purely mercantile basis. International trade requires a more complex and sophisticated approach: industrial and financial investments, consultative activities and technical assistance become part and parcel of the commercial activity at large. Trade demands nowadays a global participation in the challenging venture of economic development.

Turning now to the general situation of developing countries, as it appears to be in realistic terms, I should like to emphasize another conviction of mine. To lump together Africa, Asia, and Latin America, and to label them as all underdeveloped, provides one of the greatest misconceptions of which the international community suffers nowadays. You, gentlemen, know, as I do, that the countries within these wide areas are much more different than similar in very many ways. Their level of development is a widely apart among them as in certain cases it is apart from us. We must use a different yardstick. We must rationalize our interventions and our contributions.

I may add that, if the Atlantic nations want, as I hope, to adopt a long-term trade policy with respect to the less-developed countries, they should (a) realize that the issues of trade are strictly intertwined with those of aid, technical assistance, and development at large, and cannot be shred from the fundamental and increasingly serious worldwide problems of population growth and education; and (b) be prepared to define priorities because their resources, however great, are not enough to do everything everywhere.

They must also objectively assess which of the great world regions is more likely to reach, with our help, self-sustained development in the near future.

In this context, in my opinion, we should concentrate a great part of our efforts in Latin America.

I have particularly in mind that Latin America provides the most mature economies to be positively helped by our interventions and contributions. Speaking to Americans, I know that they are fully aware of this incontrovertible fact. I see in this area of Latin America not only the prospect for a further and bold American aid and trade activities, but even more a fertile ground for an imaginative American-European cooperation.

Thank you.

Chairman Boggs. Thank you very much, Doctor Peccei, for a very fine statement.

Now, we will hear from the Right Honorable Kenneth Younger.

Mr. Younger.

STATEMENT OF RT. HON. KENNETH YOUNGER, DIRECTOR, ROYAL INSTITUTE OF INTERNATIONAL AFFAIRS, LONDON, ENGLAND

Mr. YOUNGER. Thank you, Mr. Chairman.

I believe that the statement which I put in has been circulated to members, and I don't wish to take up the time of the committee in going through it in much detail. But I would like to pick out some of the main points that I wish to bring to the committee's notice.

I would like, first of all, like Mr. Peccei, to thank you very much for having given me the opportunity of coming here. I am all the more honored by it since your subcommittee already has an international reputation for looking far ahead and for taking a very wide view of your country's trading policies.

Some of the witnesses who have already appeared before you have drawn attention to the many uncertainties immediately following the end of the Kennedy Round negotiations. I think perhaps your committee will wish me to say something about the major uncertainty which affects my country, namely, the question of whether we are or are not going to become a part of the European Economic Community.

Chairman Boggs. We would be very interested in hearing about that.

Mr. YOUNGER. As you know, we had to go through these negotiations from outside the Community. It is very ironical that some of our continent friends who are among those who do not wish to see us inside, nevertheless criticized our negotiators because during the negotiations they didn't behave as though they were entirely inside. This seems to me an unreasonable proposition. But it illustrates the dilemma that we are in.

The point which I wish to make to you is that although there is a great uncertainty about the time at which we might join the Community, and in particular about the fate of the present application, I would put it to you, Mr. Chairman, that the correct calculation is that sooner or later Britain will be in, and with her one or two of the other countries of Western Europe.

I say this because I think that the opposition to Britain's entry is of a more temporary kind than the determination which she has now reached to get in.

She has reached this determination as a result of looking at all the alternatives, and has not found any alternative which appeals so much.

I don't believe this opinion is going to change, whereas it seems to me that the opposition to her entry has been limited largely to the Government of France. And we know that even within France there are several opinions on this matter. I think that French opinion is more likely to change than the British one.

Nobody can presume to talk for all sectors of opinion, because there are still differences. And some people believe that if this application were to be blocked, Britain might feel a revulsion against Europe and turn elsewhere. But my judgment is clearly against that. I believe that the concept of the organization of the Western World to which my country is likely to adhere with a great deal of determination is what you might call the grand design of two communities, one on each side of the Atlantic, with Britain being a part of the European Community. I believe very strongly that that is the sanest pattern that has as yet been put forward at any time. And just because it has run into difficulties I don't think we ought to give it up.

I would like to make a brief comment on the proposal which is talked about nowadays for the North Atlantic Free Trade Area. As I understand it, this is being propounded in this country largely by people whose first preference would be for seeing Britain inside the Community, and they think of the free trade area as an alternative only if Britain is excluded. They see it to some extent as a tactic for persuading the members of the present Community to allow their Community to be enlarged.

I don't myself feel a strong appeal in this. I think it is significant that in Britain it is supported almost entirely by those who do not in any case wish Britain to join Europe. There is a fear among the majority in Britain who do wish to join the Community that a proposal of this kind would not bring any pressure on Britain's friends to help them into the Community, but on the other hand would cast doubt upon her continuing determination to become a part of Europe.

The second point about our relations with the Community is that if, as I believe, we do eventually join it, this will, of course, change our attitude to certain particular tariffs in tariff negotiations, because we would then be inside the common tariff barrier instead of outside it. But I do not believe it would change the general attitude of my country toward what your Trade Expansion Act called open and nondiscriminatory trading in the free world.

We would, of course, from the time we got in, be negotiating as part of the Community. And therefore it is of great importance to us to assess what the attitude of the Community in general has been determined to be in these negotiations.

The first point, which is of great significance to the whole world trading community, is that the European Commission succeeded in negotiating for the whole body of six countries, despite the fact that they started with many differences of policy. And I think that this is an indication that the Community today has the lasting power to go forward.

Moreover, it emerged from a very difficult period of internal dispute and conflicts strong enough to be able to show considerable flexibility, and a degree of liberalism toward the end of the negotiations. I feel that the fear that many people had 3 or 4 years ago, which continued

during much of the negotiating period, namely, that we might be faced with an inward looking, highly protectionist European Community, this fear, is much less likely to be realized than was then thought. I do not believe that great differences of doctrine about trade have been thrown up in these negotiations either between Britain and Europe, or Britain and the United States, or the United States and the Community. I think there has been a high degree of doctrinal agreement, and most of the difficulties have arisen out of the pull and push of sectional interests.

I would like to say a few things about the less-developed countries, realizing, as we all do, that the United Nations Conference on Trade and Development is due to assemble next year, and that we shall not be allowed simply to sit back and forget that the less-developed countries were not so satisfied as they might have been with the outcome of the Kennedy Round.

So far as preferences are concerned, I would hope that the more-developed countries may be a little nearer together than they were in the Conference in 1964. At that time, as I understand it, the United States was opposed to preferences of all kinds on the ground that they were a legacy of imperialism which was no longer appropriate. The Community upheld its preferences because it said that this protection was required by the struggling economies of what had been formerly the dependent territories. While Britain at the end put forward a proposal generalizing these various systems, giving preferences to all less-developed countries alike.

I would hope that that proposal might be seen now to have made some progress.

I have seen many references in your statement, Mr. Chairman, to President Johnson's speech at Punta del Este in which he seemed to be accepting the idea of some temporary arrangement which would enable preferential treatment to be given, not to the regions based on old imperial systems, but to all underdeveloped countries by all developed countries.

I have some reason, though it is not a very firm one, for thinking that the European Community might be moving in the same direction, at least so far as thinking in the Commission in Brussels is concerned, though I understand that no decisions have been taken which would enable the Community to negotiate on this basis at the present time.

I would hope that the U.S. policy might begin to move in the direction of a concept of this kind. And in this connection I would like to mention the proposal of the Director General of GATT that the concepts we agreed on in the Kennedy Round might be applied more rapidly to the developing countries. I realize that there are difficulties about that, not least, perhaps, the difficulties of new legislation. But I would hope that this might have favorable consideration in this country.

Of course, it is not only preferences that are of interest to the developing world; indeed other questions are of greater importance. I think perhaps in my paper I have rather underplayed the interest of less developed countries in having better access to the markets of developed countries for their manufactured and semimanufactured goods. They say, not without reason, that we are always telling them

that they must diversify their economies, that they must not depend on exports of agricultural products, particularly one special crop in the case of many countries, and that they must therefore begin to industrialize. But the structure of tariffs applied by most of our countries in the developed world makes it exceptionally difficult to do this. And from the moment they begin to try to export semiprocessed goods they meet a higher tariff, and fully manufactured goods, a higher one still. This is something I think which very urgent attention should be given.

The other great issue for them is the question of commodity agreements. And here there has been, I think, a considerable resistance in the developed world, not only because of what one might call doctrinal grounds, but because it is intrinsically a very difficult thing to regulate prices in a reasonable way, if you once start interfering with the market.

The point here that I would like to make is that, particularly so far as agricultural produce is concerned, since virtually no country is prepared to apply the principle of free trade to its own agriculture, it is not plausible to object to the organization and regulation of the international market in agricultural produce on any kind of theoretical ground. I think the pressures that prevent it being done are very largely against interests. I hope that we may see a more active support in the future, certainly from my country and from other countries, but perhaps particularly from the United States, and the U.S. Congress, which has a very powerful influence in these matters.

Mention has already been made of the nontariff barriers to trade, which are rapidly becoming the most important issue, more important than further reduction of tariffs.

I don't know whether it is true, it may well be quite untrue, but I think it is fair to say that there is a general impression outside the United States that the protection offered by nontariff barriers to U.S. producers is somewhat more marked than it is in the case of other countries. This may only be because you have explicit expressions of this, such as the Buy American Act. All of our countries, of course, adopt practices of one kind or another, often very subtle, and often very hard to identify, which have the same effect. And they all affect particular business interests, and they are therefore particularly hard for us to change.

The famous instance of the American Selling Price, which is the most prominent one which has come up in the Kennedy Round, is a good example of this. But it is, of course, by no means the only one. Indeed, these nontariff barriers are so varied and so numerous that one's heart quails at the thought of a round of negotiations on a multinational basis which are directed to this particular problem.

One aspect to which I would like particularly to call your attention is that the removal of nontariff barriers nearly always takes one directly into what have previously been considered purely domestic matters. There is therefore a specially strong resistance to what seems to be foreign interference.

Here again I would like to come back to what I understand to be the approach of the European Economic Community.

It is generally assumed that the most important aspect of the Community's policy directed to creating future unity among the six has been the common external tariff. This was probably so at the beginning. But I have been assured by well-informed officials of the Community that this importance has been decreasing. It is still important, of course, that they have a common external tariff. But the level of it, whether it is high or low, has become much less important from this particular point of view. What has become more important has been the efforts which they have made, with varying success, to coordinate their policies in a whole range of other matters, bringing them nearer to the concept of an economic union.

I don't think that we can doubt that this has been their experience. But I think we ought to give our mind rather carefully to the implications of this sort of doctrine, if it is applied to wider groupings of countries which have little prospect in the near future of becoming an economic community.

How far can one, in fact, hope to go beyond the point that we have now reached in eliminating tariffs among a group of countries which are not contemplating economic union? It may be that the limiting factor will turn out to be precisely what we can achieve in the field of nontariff barriers, in the field of harmonizing and coordinating policies on taxation, on governmental procurements, on various industrial practices, and so on.

Whereas few doctrinal differences emerged in the Kennedy Round, because the target for reducing tariffs was limited to 50 percent, had the target been 100 percent, that is to say complete free trade in these products, at once some of the discussions on whether this could be achieved without a much higher degree of harmonization in other fields would have become important.

Here again, if I may revert for one moment to the North Atlantic Free Trade Area, if I am right in what I have said about the Community's attitude over this, it seems to me almost inconceivable that the Community would be willing to become a member of a free trade area which was not accepting economic discipline in a wide range of other fields. Therefore this free trade area has to be seen as something which excludes the European Economic Community.

In that event I would think that it would be likely to remain a rather unacceptable concept to Britain, and I think to her EFTA partners, too, because if they were to join in the free trade area this would have a tendency to separate them, perhaps, forever, or at least for a long time, from the Community. I do not think that they would be prepared to envisage that. I think they would feel it more realistic and worthwhile to wait, even if they have to wait for some years, in order to become a part of the European Community.

The lowering of tariffs in the Kennedy Round of negotiations would make that period rather less difficult for them than it would otherwise have been.

I would like to say a word about East-West trade which Mr. Pececi mentioned. And here I want to make what is primarily a political point. I realize that East-West trade is not quantitatively of great importance in the trade of most countries, and probably very unimportant in the trade of the United States. But it is becoming politically

important in Europe for two reasons. First, because improved relations with Eastern Europe have begun to take a very high priority in the policy of the leading Western European countries, particularly France and Germany. Indeed, this is one of the few major policies at the moment in which the Federal Republic and the present Government of France are at one. While everyone realizes that the limit to East-West trade is broadly set by the limited capability of the Eastern countries to produce the right kind of goods, there nevertheless are a number of Western restrictions which limit this trade.

Some of these are either not applied at all or are somewhat resented in Europe. I am thinking particularly of the regulations which prohibit the export to Eastern European countries of a range of goods outside the strategic field, which happen to incorporate certain U.S. patented items. In my paper I cite the rather ridiculous example of my own institute, which was anxious to buy a rather modest, secondhand office calculating machine, one with no special modernity. But it found that it could do so only if it undertook not to export it to a wide range of Communist countries or to the British Colony of Hong Kong. This didn't prevent it from buying the calculator. But this extension of restrictions over a wide range of items which are not normally considered of direct strategic importance does cause a certain resentment. And I think it is important to have a fresh look to see how far these export regulations still fulfill an important American purpose.

The second aspect of political importance is that there is clearly great concern felt in a number of Eastern European countries to increase their trade with the West. There are many signs that in order to do this they are prepared to modify their trading systems. Some of them see this quite specifically as a development through which they will also be able to liberalize their internal systems. Since this has always been something to which the West has attached importance, I think this is a political motive which should not be ignored.

What we have to get away from is the assumption which grew up at the worst period of the "cold war" that our policy should be directed to impeding the progress, or perhaps even weakening Communist countries. This is not generally thought in Europe to be an objective of policy today. There is still an acquiescence, of course, in certain strategic controls, but of a much narrower kind than our present practice. I think that the doctrine that Western Europe ought to be trying to impede the progress of countries in Eastern Europe runs directly contrary to the present trends. And it is very important that it should not be thought in Western Europe that, because in general Western trade has an orientation to the West and across the Atlantic, this is going to be an impediment to improving their relations with the East. It is one of the arguments that is most frequently used by those who wish to see Western Europe separated from the United States. I believe it to be a false argument, and I would hope that in our future policy we should see that no color is lent to it.

Mr. Chairman, there are not many other comments that I would wish to make. If I have said certain things to suggest that the old concept of free trade has its limitations, this is not because I think that we should therefore do less to achieve the freeing of trade, but simply

to point out that we need to do many more things as well, that we cannot stick to the old simplicity of the idea of freeing such things as tariffs, and that we have got to take the matter much further. We have become quite accustomed to the idea that in order to help the less developed territories we must be prepared to depart from pure free trading doctrine in order to help the weaker parties.

And I think it is worth mentioning that something of the same issue arises between industrialized countries in the so-called technological gap which there is between the United States and Western Europe.

This again is one of the arguments most frequently used by those who are urging Western Europe to separate itself from the United States. I am not going to spend much time on it. It is not strictly, I suppose, a question of trading policy. It is more a question of investment policy. And it largely concerns the great American corporations which engage in international investment on a large scale.

The only point I would like to leave with you on this is that it seems to me that there are many great American corporations highly experienced in the field of overseas investment which have realized that in order to avoid political resentments against American power, against the taking over of local industries by American companies, they have to adjust their policies. They have to accept something which in the purely commercial sense may be less than the best solution for them. I think it would be very wise of them to do so, because unless this does happen—and perhaps in particular unless rather special steps are taken to see that a substantial amount of advanced research is done in countries outside the United States—I am afraid there may be a tendency to put up certain barriers to the free interchange of technology and investment between Europe and the United States just at a time when we would like to see the opposite happen. The fact that this situation is no fault of the United States, indeed it is precisely due to the fact that they are technologically excellent, and that their industrial management is normally better than that of other people, doesn't affect the fact that there are political disadvantages which may result unless the problem is fully recognized.

In conclusion, I would like to say that it is well realized, certainly in my country, and I think in most other countries of the Western World, that we owe a great deal to U.S. policies in recent decades for the liberalization which has occurred. If the United States had taken a different line, we would be very much more sharply separated from each other technically and politically than we in fact are. It is of enormous importance to all of us that the United States should maintain this attitude of wishing to see trade on a multilateral basis and freer so far as it can be made freer.

We are encouraged to think that this will go on by our experience of U.S. policy in the past, which has shown that, even at the cost of short-term inconvenience, the United States is often prepared to take the long view.

(The prepared statement of Mr. Younger follows:)

PREPARED STATEMENT OF KENNETH YOUNGER

I am grateful to you, Mr. Chairman and to this subcommittee for the honour you have done to me in inviting me as a non-American to participate in your hearings on future United States Foreign Trade Policy. Now that the Kennedy

Round, with whose initiation five years ago many members of this subcommittee were so closely associated, has just been brought to a much more successful conclusion than had at one time seemed possible, it is good that we should all be reminded by you that this is a moment not only for congratulating ourselves on what has been achieved, but also for giving our minds to the next steps which we have to take in the promotion of world trade.

The moment is of course a difficult one for forecasters, since it is still too early to feel sure what effect the agreements reached in Geneva will actually have upon the flow of trade. It will be several years before the negotiators will know for certain whether their calculations were sound; and until this becomes clearer, governments are unlikely to commit themselves to fresh policies. For that very reason there may be a chance to influence future thinking by free discussion.

There is one uncertainty in the present situation which particularly affects Britain, her exclusion up to the present time from the European Economic Community and the doubt whether her second application for membership is going to succeed. It may be appropriate for me to start by saying something on this issue.

BRITAIN AND THE E.E.C.

Contrary to the hope entertained in 1962, Britain had to participate in the Kennedy Round negotiations, from start to finish, on the assumption that she would be outside the Community at least for several years to come. From January 1963 until the end, negotiations for her entry were not even in progress and there was no certainty about their renewal. In these conditions the British negotiators could hardly be expected to adopt all the positions which they might have done had British membership of the Community seemed imminent. The fact that some continental critics have blamed Britain for having shown herself insufficiently European in these talks illustrates the dilemma in which she is at present placed.

It is still impossible to name a date when Britain might join E.E.C., but on the issue of whether she will join at some time or other, I would suggest that calculations should now be based on the strong probability that she will. Although it is clearer now than in 1962 that President de Gaulle will keep Britain out if he can, he has obtained virtually no support for this policy among his five partners in the Community, and even in France there is a substantial body of opinion which does not share his view. The opposition to British entry has thus a temporary look; whereas the conversion of Britain to the policy of joining E.E.C. seems more durable. It has occurred as a result of serious examination of available alternatives over a period of more than five years, and this has produced unanimity among political leaders of all the major parties, solidly backed by an overwhelming consensus of industrial opinion. The British drive for entry therefore seems less likely to change than the French opposition to it.

It is true that the question is still being asked whether, if the British application were to be blocked again, the British government and people would undergo a revulsion against Europe and look elsewhere. I do not think this likely, if only because Britain has already considered all other possibilities and found them wanting. I believe that she will cling to the concept of a partnership between Europe and North America, in which she will be an integral part of a growingly united European component. This concept, which used to be called the Grand Design, has suffered some setbacks in the last five years. Its realisation may now seem a longer business than was once hoped. But it is still the sanest pattern that has been proposed for the Western world and it should not be lightly given up, nor should anything be done for tactical reasons which might make it harder to resume an advance towards it.

In this connection I should like to make a comment on the proposal for a North Atlantic Free Trade Area. As I understand it, those on this side of the Atlantic who have promoted it are, broadly, those who favour the entry of Britain into E.E.C. as part of a wider Atlantic grouping, but feel that, if this course is blocked, an immediate alternative should be envisaged, which does not require the Community's co-operation. The Free Trade Area could leave room for the Community to join in at a later stage, but in the meantime would proceed separately. There is the further idea that the mere formulation of this alternative may in itself be a useful tactic in bringing pressure upon the Community to agree to Britain's entry.

This proposal has not met a ready response in Britain where, in contrast to the United States, its supporters are to be found wholly among those who have been either hostile or at best lukewarm towards British entry into the Community. As a tactic, it is seen as being unlikely to bring pressure upon Britain's friends in the Community to help Britain join and more likely to cast doubt upon the firmness of Britain's newly-accepted commitment to Europe.

I shall return to the NAFTA proposal in another context. For the moment I only want to say that it does not affect my belief that Britain will now pursue her objective of joining E.E.C. with persistence and that she will succeed, only the date of success being in doubt.

By the time that governmental decisions have to be taken about new trading policies, this uncertainty may or may not have been resolved. In any event, I do not anticipate that British entry into E.E.C., though it would inevitably affect her attitude on particular tariffs, would alter her fundamental attitude to what your Trade Expansion Act called "open and nondiscriminatory trading in the free world". From the time of her entry, Britain would of course be negotiating through the E.E.C. and would have to adopt as her own the common attitudes which had been agreed within that body. I now turn therefore to consider what the attitudes of the E.E.C. have been shown to be in the course of the Kennedy Round.

THE EVOLVING ATTITUDE OF E.E.C.

It is of great significance for the Community and for the world that these gruelling negotiations were carried through to success on behalf of the Six member nations by the European Commission as their sole spokesman. There could hardly have been a stiffer test of the Community's ability to represent a common interest among countries whose national attitudes were widely divergent at the start. It will be remembered that the negotiations were seriously held up for many months while the Community sorted out its sharpest internal conflicts. Frustrating as this was for the other partners, encouragement can be drawn from the fact that, once the internal difficulties were resolved, the Community emerged strong enough to negotiate as a single whole and, in the closing stages, proved capable of greater flexibility than would have been attributed to it only a few months before.

I have already referred to the fact that, on a number of important points, Britain came into conflict with the Community. As examples, our attitude over steel disappointed them; their attitude over heavy trucks disappointed us. But on the wider issue of the approach to the structure of industrial tariffs among the advanced nations, no serious differences of philosophy or principle emerged.

Indeed the fact that, in a field where the target had been set at a 50% across-the-board cut in tariffs, an average cut of 35% was actually achieved is surely strong evidence that really serious differences of principle cannot have existed among any of the main trading nations represented at Geneva. It was not doctrinal differences which caused the greatest difficulty, but rather the power of sectional interests to exert pressure upon governments. Whether a different situation might have been revealed if, as had been hoped in 1962, the enlargement of the Community had led to the raising of the target for many of the cuts from 50% to 100%, we cannot know. For the difference between lower tariffs and no tariffs at all is a qualitative as well as a quantitative one and raises some new issues on which there might have been more fundamental disagreement.

All that one can confidently state about the attitudes of E.E.C., as demonstrated in the negotiations, is that within the limits which were set by the actual course of events, the earlier fear that we might be faced with a determinedly inward-looking and protectionist Community was not borne out. At the end of the Kennedy Round a split between the Community and her Western trading partners on this score seems much less probable than it once did.

THE LESS DEVELOPED COUNTRIES AND UNCTAD, 1968

It has been widely noted that the success of the Kennedy Round in satisfying the wishes of the more advanced countries in respect of industrial tariffs was by no means matched by successes on the issues of primary concern to the less developed countries. To some extent, this is a reflection of the fact that the efforts of the negotiators had to be concentrated on avoiding a failure of the whole Kennedy Round, which seemed all too likely during the greater part of the period, and that the necessary time and energy for dealing adequately with the

problems of developing countries simply could not be found. This is one of the big pieces of unfinished business to which attention must now be turned. The prospect of the second United Nations Conference on Trade and Development, due to be held next year in Delhi, is sufficient to ensure that we shall not be allowed to ignore it.

We all remember how, at the first UNCTAD in 1964, the impressive solidarity of the less developed countries was matched by almost total disarray among the leading industrial nations—including incidentally the Soviet Union. On the issue of preferences, the differences within the Western world at that time could be crudely stated in these terms; the United States maintained its traditional opposition to preferences, as a legacy of dying imperialist systems; the Community, in upholding its association agreement with former colonial territories, maintained that though this might be a legacy of colonialism, it was nevertheless an essential prop for these struggling economies; while Britain, at the end of the Conference, proposed to generalise the various preferential systems, giving preferences to all the less-developed countries alike.

Various events which have occurred since then encourage me to believe that something on the lines of the British proposal of 1964 may now be more generally acceptable than it then was. I base my optimism partly on President Johnson's statement to the Inter-American Summit Conference at Punta del Este last April, when he said that the temporary tariff advantages for all developing countries by all industrialised countries would be one way of increasing the export earnings of the less developed countries. I base it also on the belief that the thinking of the E.E.C. on this issue, though not yet crystallised in any decisions, has been moving in the same direction, and that it too might now be willing to consider generalising to all developing countries the preferences at present given only to its associated states. The amount of tariff protection given to these states on their main tropical products was in any case substantially lowered by the Yaounde Convention of Association of December 1962 in return for increased financial aid for development. Moreover, the importance of preferences, as opposed to other aids to development, will diminish as tariffs are generally lowered, and this should make it easier to secure the acceptance by the Community and its Associated States, of a change in the system.

So far as United States policy is concerned, I would hope that President Johnson's willingness to consider giving temporary tariff advantages to developing countries might lead to the United States adopting a more positive attitude to the recent proposal of the Director-General of the GATT, that the Kennedy Round cuts might be implemented in full in a single installment for the developing countries, or at least at an accelerated rate. It seems to me that this, by giving them an advantage that would diminish to zero at the end of 5 years would exactly correspond to the President's thought. I understand that legislation would be needed before such a scheme could be implemented in the United States, but I would suppose that this might seem a less formidable obstacle to a Committee of Congress than to the Administration.

If I am right in thinking that doctrinal differences among the major trading nations on this question are beginning to lose their sharpness, I would hope that UNCTAD might produce an agreement to pursue the question of generalised preferences being given to the less-developed world by the more developed world, and that serious negotiations in the GATT might follow the UNCTAD Conference. Something of this kind is surely going to be needed, if the tendency to favour regional preference systems is to be checked; for the abolition of the present systems without anything being put in their place would be fiercely resisted. In contrast, a generalised system would enable both the Community and Britain to reconcile their concern for the interests of their former dependancies with the desire, which they share, to give some satisfaction to other trading areas, particularly Latin America.

There are other questions which are of even more concern to the less developed countries. One of these, which admittedly only affects a limited number of them, mainly in Asia, is access for their manufactured and semi-manufactured goods to the markets of industrial countries. Of more general concern to a wider range of countries is the question of commodity agreements for raw materials and food stuffs. I believe that the United States accepts in principle the need for agreements to establish stable and reasonable prices for at least some of the staple commodity exports of developing countries and to avoid continuing surpluses. But in practice progress has so far been exceedingly limited, partly no doubt be-

cause of a built-in tradition in Western trading countries, and especially in the United States, against interference with market forces.

The main point which I wish to make on this is that it is now tacitly recognised that the concept of free trade does not include free trade in agriculture—in circumstances in which virtually every country insists on regulating its own agriculture and protecting its producers, it is not plausible to object on theoretical grounds to the organisation of international markets. Here again the main obstacle, apart from the intrinsic difficulty of establishing what are reasonable minimum prices, levels of production, and so on, is not the doctrinal one, but quite simply the strong pressure exerted by special interests.

These pressures are particularly strong in the United States, whose negotiators have, in general, felt able to work towards commodity agreements only where there is an American export interest, as in cereals.

I would not feel myself well-qualified to dispute with you the details affecting particular commodities, but I think it important to stress that the general issue of commodity agreements is of the greatest significance to the developing countries and that full American co-operation is going to be indispensable if progress is to be made. In some cases, such as cocoa and sugar, the problem is already urgent and is bound to be a main topic at the UNCTAD in 1968. It is very much to be hoped that, when the time comes, it will be possible for Congress to give its support to a more active policy in this aspect of international trade.

NONTARIFF BARRIERS

One thought which seems to have imposed itself forcefully upon all those who participated in the Kennedy Round is the growing importance of non-tariff barriers to the free flow of trade. As tariff barriers are lowered, the relative importance of the non-tariff barriers increases.

This issue arose from time to time during the Kennedy Round and in a few cases some practical progress was made, but it did not occupy the centre of the stage. It was, however, identified by almost everyone as being one of the next and hardest items for inclusion in any future agenda. Indeed, it is not at all certain that agreement on a further round of substantial tariff cuts will be even worth attempting unless it can be preceded or accompanied by progress in this more intractable field. Some tidying up of the results of the Kennedy Round will no doubt be possible and perhaps some further attempt to "harmonise" tariffs which are seriously out of line with average practice. But measures of this kind would be the completion of the past phase rather than a step forward into the new.

Some of the more obvious non-tariff barriers, such as discriminatory customs definitions, attracted attention during the Kennedy Round, but many others have hardly begun to come under discussion in the GATT. I am thinking of such devices as differing tax provisions, or discriminatory arrangements for tendering and purchasing by governments and public authorities. These often cover a wide range of capital goods and equipment and are by no means limited to the defence field.

There is a fairly wide-spread impression that, although all governments engage in these practices to some extent, non-tariff protection given to producers is more extensive in the United States than elsewhere and that, in consequence, there will have to be active co-operation from the United States if this thorny subject is to be adequately tackled. It is well recognised that this may pose difficult problems for the United States Government.

Many of these practices are deeply engrained in the business thinking. Any attack upon them is fiercely resisted by the industries affected, a current example being the agitation in some parts of the chemical industry against the undertaking given by American negotiators at Geneva to reconsider the American Selling Price. Since American exports only account for about 3% of the Gross National Product and imports for even less, it is harder than it would be in some other countries to argue for reducing protection on grounds of the national economic interest. It is instructive to note that the corresponding figure for Britain in 1966 was 22% of Gross National Product for exports and slightly more for imports.

If this particular difficulty applies to the United States in special measure, other difficulties apply to everyone. In the first place, whereas an exchange of tariff concessions can be quantified and its fairness made apparent, in non-tariff negotiations like is not being traded against like. Nor is the effect of a concession

similar as between different countries. A round of non-tariff bargaining on a multilateral basis is therefore something of a nightmare to contemplate. Nevertheless its possibilities and limitations must be explored if any further freeing of trade is to be attempted. In the second place, most of the practices involved are widely regarded as matters of domestic policy and pressure from foreign countries to alter them is consequently resented as interference.

The approach of the E.E.C. to this question is of very special interest. Although in the early days of the Community the common external tariff was seen as the essential instrument for forging future unity, as the work has proceeded, the task of reaching common economic policies and of harmonising such things as tax systems and transport arrangements has come to seem more important still. Indeed it is sometimes said that the elimination of internal tariffs could never have been accepted by the member states had the Community not also begun to secure greater standardisation over a wide range of economic activity. There is nothing surprising in this when one remembers that the object of the Six in coming together was always to form an economic community, the Common Market being only one of the means for achieving it.

In the light of its experience so far, the Community looks with growing disfavour on any policy which aims simply to abolish tariffs without imposing any form of common economic discipline. A Free Trade Area, it is contended, is a nineteenth century concept. The concept appropriate to the twentieth century is economic union, which permits the taking of responsibility not just for foreign trade but for such purposes as stability, growth, currency strength and full employment.

So far as E.E.C. itself is concerned, it is hard to challenge this doctrine or to deny that, whatever may have been the case at the start, other things are now more important than the common external tariff in holding the Community together at least in the sense that it is only the existence of the common tariff and not any particular level of tariff that now matters from this point of view. But in applying this to wider groupings, such as the Atlantic nations or the members of O.E.C.D., for whom common political and economic institutions are either impossible or a rather distant dream, the implications require careful thought.

What limitations, for instance, does this doctrine place upon the elimination of tariffs among a group of countries which are not contemplating economic union? May it be that the willingness of the constituent parts to work towards conformity over a wide range of essentially domestic matters is the limiting factor which determines how far the group can usefully attempt to go in abolishing external barriers to trade? I had this in mind when I reflected earlier that if the target for the Kennedy Round had been a tariff reduction of 100% instead of 50%, differences of fundamental doctrine might well have been exposed.

NORTH ATLANTIC FREE TRADE AREA

It is in this context that I wish to revert briefly to the proposal for a N.A.F.T.A. In view of the E.E.C.'s attitude which I have attempted to describe, it is inconceivable that the Community would join such a body, either initially or at a later stage. For Britain and some or all the members of EFTA, to join the NAFTA would be the surest way of making permanent the present division of the Six and the Seven within Western Europe, and of inviting the very separation of E.E.C. from North America which it is one of the objects of Western trading policy to prevent.

It will be, in my view, much wiser and more realistic to cling to the concept embodied in the Old Grand Design, namely that there should be a genuine community on each side of the Atlantic, and that the economic relationship between the two should be as free and non-discriminatory as persistent negotiations can make it. Britain should form part of the European Community and if at first she cannot get in, it is nevertheless worth her while to wait. The lowering of tariffs as a result of the Kennedy round will make the waiting period less difficult for Britain than it would otherwise have been.

I can imagine a pattern of this kind creating in due course a genuine, if institutionally limited, unity within the Atlantic world, whereas the NAFTA solution, if it were to be accepted by governments, which at present I do not expect, would in my view lead only to a dangerous fragmentation and would risk a lasting estrangement of Britain from the Community.

TRADE WITH COMMUNIST COUNTRIES

Before I close I want to call to your attention one other topic upon which European and British views have been changing fast in the years since the Kennedy Round began.

I refer to trade between the West and the Communist countries, especially those of Eastern Europe. This has been, I know, a relatively small part of the trade of all Western countries and an almost negligible part of United States trade. Although there are Communist governments in the GATT, the work of GATT has had little relevance to what has come to be called East-West trade.

The point which I wish to make is that the importance of this trade has been rising fast in Europe and that great efforts are being made, on both sides of the divide, to accelerate this trend. Over a 9-year period the exports of the Eastern bloc to E.E.C. have gone up by 125%, starting, it is true, from a very modest base.

Though quantitatively this trade may still be of only secondary importance, its political significance is increasing in two ways. In the first place, improved relations with Eastern Europe have become one of the major political objectives of both France and the Federal Republic of Germany. In the new atmosphere in Europe, it is important that the Atlantic orientation of western trade should not seem to be an obstacle to simultaneous increase in trade with the East. While the limit of trade with Eastern Europe is still set principally by the capacity of the Eastern countries to produce goods which are acceptable in Western markets, there are various forms of Western discrimination or quota restriction which add to the difficulties. For instance, in so far as restrictions are imposed upon the export by Western Europe to Communist countries of goods which incorporate American patented processes, this is now counter-productive in relations between Western Europe and North America. I had a rather ludicrous example of this in my own Institute recently, where we found that we could acquire a second hand American calculating machine, worth some \$450 only if we signed an undertaking not to export it to a long list of Communist controlled countries and even the British colony of Hong Kong. It may be timely to consider how far these regulations still fulfill any important American purpose.

The second way in which East-West trade is acquiring new significance lies in the keen wish of several East European countries, notably Czechoslovakia, Poland, Hungary and Romania, to maximise their Western trade. There are growing signs that they may be willing to make adjustments in their own industrial and commercial practices in order to facilitate this trade and that these adjustments in turn contribute to the general process of liberalisation and to the decentralisation of authority within the Communist world, which the West has long professed to welcome.

What is being suggested here is not any drastic re-orientation of the trade of the United States itself with Communist countries, which seems likely to remain marginal. It is rather a further shift away from the spirit of the old policy, which deliberately discouraged the growth of trade between the countries of East and West Europe, presumably on the assumption that, even apart from strictly strategic issues, it was a Western objective to impede wherever possible the economic advance of the countries of the Communist bloc. This is not a doctrine which any longer commands support in Western Europe.

CONCLUSION

I would emphasize in conclusion, how decisive it has been for the stability and prosperity of the Western world that the United States has given the lead since the Second World War in working towards a free system of multilateral trade. Had she pursued a contrary course—and there must have been many temptations to do so—we should today be faced with much sharper divisions among the Western countries, especially between the United States and Europe; while the large number of newly independent countries, whose need is for the diversification of their foreign trade, would now be tightly encased within much more rigid discriminatory preferential systems than they are today.

For much of the period since 1945, strategic arguments for keeping the Atlantic countries together in the economic as well as the military sphere have been persuasive. I have indicated my view that these particular arguments have

lost much of their force in Europe in recent years, though they have not yet entirely vanished. But, quite independently of these arguments, there will continue to be an enormous advantage, both for the developed and for the less developed world in keeping international trade upon a multilateral and, so far as possible, a free basis. We do not want to see another retreat into national or regional economic defensiveness such as the world experienced in the inter-war slump.

It is true that we are not likely to achieve the objective of complete free trade, in the sense in which we inherited this idea from the 19th century. The responsibilities which modern governments have to accept for a wide range of economic policies virtually rule out any such simple solution. Moreover, when trading partners are at widely different levels of economic and industrial development, unregulated, free trading relationships tend to favour the stronger partner, so that special arrangements designed to facilitate the development of the weaker have to be envisaged.

We have become accustomed to this notion in considering the arrangements to be made between the developed and the less developed world, though, as I have said, we have not yet gone far enough in carrying it into practice and are under pressure to go further. We are less accustomed to recognise that a similar kind of tension may also arise between industrialised countries, as it has in the current argument about the technological gap which has opened up between the United States and Europe.

I have not spoken of this because it is not strictly a question of trade policy, but it is one of the causes of a certain defensiveness in the European attitude to its economic relations with the United States and it would be unwise to ignore it.

An improvement in European performance in both technology and industrial management is, no doubt, the indispensable remedy for this situation and one may hope that the evolution of a larger and more integrated community in Europe will contribute to this end. But this is bound to take time. In so far as American policy can help, perhaps attention should be paid to some modification of the attitude of American Corporations in the modalities of their overseas investment. The reluctance to share ownership of the equity of overseas subsidiaries with non-Americans and the difficulty of decentralising advanced research so that an undue share of it is not concentrated in the United States is already giving rise to defensive reactions in some European countries, both against American domination of whole industries and against the prospect of advanced technology becoming increasingly an American prerogative.

The fact that this situation arises from American excellence rather than from errors of policy does not make it less disruptive in American-European relations. It is in fact one of the most powerful arguments used at the present time in Europe by those who, for a variety of reasons, wish to see Europe maintain a certain distance and aloofness in all her dealings with the United States. There would be political and, in the long run, economic dividends to be earned if American investors could be persuaded to content themselves with less complete control and to permit a larger amount of research and development to take place in Europe. This is a serious problem which if it cannot be handled in co-operation with American business, is likely to result in the erection at the European end of new barriers between the United States and Europe at a time when in the general interest, we should be moving in the opposite direction.

I will not pursue further this question of the technological gap, only remarking that it provides an example of the extent to which United States policies are of direct concern to her trading partners in Europe and elsewhere. These partners have reason to be grateful for the attitudes adopted by the United States in recent decades. If they seem to Americans to be constantly asking for more, this is a tribute both to United States strength, which carries inescapable obligations with it, and to past American policies which have shown that the United States is capable, even at some cost in short-term inconvenience, of taking a long view of world trading problems.

Chairman BOGGS. Thank you very much, Mr. Younger.

Mr. Rumsfeld was here first, so I will call on him first.

Representative RUMSFELD. Thank you, Mr. Chairman.

I would be interested in having a comment from both of these distinguished gentlemen, concerning the procedures used within their

respective governments, to the proposal to create an international department of economic affairs in our Government. Unquestionably this proposal is a result of Mr. Curtis' feeling of dissatisfaction with the procedure of handling these matters through a variety of different agencies and segments of our Government. As I understand it, in Great Britain there is a procedure that is not dissimilar to this proposal. And I would be curious to know how you in your respective countries do handle the problem.

Mr. PECCEI. Thank you, Mr. Rumsfeld.

I suggest we should look at Europe, not at Italy or France or Germany, or at least at the EEC in Brussels. In Brussels there was a start at institutionalizing a common economic policy by delegating a member of the commission to represent the EEC in external affairs. It was M. Jean Rey, who is now president of the EEC. And I think that more and more the external economic policy of the six would be made or inspired by joint decisions taken in Brussels. We are going toward economic integration in Europe, though at a slower pace than we would like. And that will mean that we will have a unified organization of the Community for foreign economic affairs.

Mr. RUMSFELD. In Italy, if I might ask, are the foreign trade and monetary policy aspects combined within a single division of government?

Mr. PECCEI. No. In our country, as in most European countries, the Foreign Ministry has a kind of overall supervision of foreign economic relations. In addition, we have a Foreign Trade Ministry. And we have the Treasury, which deals with monetary affairs.

Mr. RUMSFELD. Mr. Younger?

Mr. YOUNGER. We have a number of ministries concerned with a matter of such great breadth as the Kennedy Round negotiations. I am not myself in Government and I may not be up to date on this. I think I am right in saying that the primacy of the Foreign Office for coordinating all of these aspects of overseas policy is still maintained at least insofar as political issue may be at stake. But in practice, of course, it depends very much on the content of the particular thing that is being dealt with. And the board of trade would be, and indeed was, during the Kennedy Round, the leading agency for coordinating the trading policies of the Government. There are so many ministries involved that I don't think it would be possible to see it as being wholly centralized under one agency. All one can hope to do is to have an adequate system of interdepartmental consultation and good representation on various ministries on the delegation which is actually doing the negotiating. And it should be possible to do it that way. You have to bring in, for instance, the Ministry of Agriculture on some issues. I think that to attempt to centralize all the work in one ministry would only be lifting the problem of coordination to a slightly different level. You couldn't release yourself of the obligation to consult all of the different interests in your government at some point or other.

I am not aware, incidentally—although I think here you would have to ask somebody who has been personally concerned at the official level with these negotiations—I am not aware that we in Britain suffered any very grave difficulties from a lack of coordination among the different agencies during the Kennedy Round.

Mr. RUMSFELD. I would like to have some clarification on the question of East-West trade from each of you, also.

Doctor, in your statement you mention the firm belief that we would be helping a positive political development with respect to East-West trade. On page 10 you said it would have positive political implications. On page 11 you said it would be an effective way to promote better political understanding, and added that, whereas sound trade relations may prove to be a thawing factor. This is, of course, a point of view. And as you know, this country engages in modest East-West trade. And as each of you has suggested, it is well to say we should have East-West trade, but the cold facts are that there has to be an economic advantage to trade and a need, and a pressure within the economic communities of the various countries to trade. Can you expand on any of these three statements?

And Mr. Younger, you also referred to this. Can you think of any instances where you can point out positive political developments, or could you possibly enlighten the committee by giving some examples where it hasn't really accomplished very much? One example might be Cuba, where the United States did over a long period of time have close economic ties. And our current situation with respect to Cuba certainly couldn't be described as that trade having resulted from positive political development or a thaw. I think that this question needs to be more precisely discussed, if you could provide me with some insight.

Mr. PECCER. If I may, Mr Rumsfeld, first of all, I would like to tell you one, I believe that I have. And I think it is substantiated by facts. And that is, the economies of Eastern Europe and the Soviet Union are very weak economies. When they are exposed to contacts with Western Europe, and more especially when they will be exposed to contacts with the United States, they see that many of their procedures and many of their ways and methods of organization are not a match for those that we have in the West. And there are more and more technocrats, or leaders in their countries who wish to adopt our methods of organization in manufacturing of motor cars, or data processing and handling, and many others. I might cite the situation in Yugoslavia and Rumania, where we see people of high standing from the Ministers downward who are prepared to do practically everything that they can and to influence the organizations of their States to come very much our way, because it is the only possible way for them to manufacture at cost and in quality acceptable to their markets, and to export new goods as their markets are widening.

I think that this has an impact. Let's take the motor car, the boom on which is going on in practically every Eastern European country. The motor car will change ways of life of those countries. Roads, service stations, repair shops, and the possibility of moving within their national boundaries and outside—this is a new outlook that they have. If they had had no motor cars, they would have been much more inward looking, restrained.

Mr. RUMSFELD. My time is up. I am afraid. Let me just see if you would say that this is correct. From your response is it safe to say that your suggestions concerning the desirability of East-West trade are restricted to instances wherein the United States could be trading with a country that did not have a strong economy because the ad-

vantages that would accrue from encouraging that country to evolve to a system that, as you say, would encourage consumer products, automobiles and so forth, would not be applicable if the economy were already strong. The argument that you have given is an interesting one, and has some merit, but it would not apply to a country that already had a strong economy, and where there was already emphasis on consumer products, according to your definition. Is that correct?

Mr. PECCEL. Yes, sir. But I don't know of any Eastern European economy which is strong.

Mr. RUMSFELD. I am just trying to pin down the argument.

Mr. PECCEL. And it would take a very long time before they became stronger than they are now.

Mr. RUMSFELD. Thank you very much.

Chairman BOGGS. Thank you very much.

Senator MILLER?

Senator MILLER. Thank you, Mr. Chairman. I have just a couple of questions.

Mr. Younger, you referred to a narrowing strategic goods policy. Would you elaborate on that?

Mr. YOUNGER. Mr. Chairman, I think it is probably fair to say that the importance of this particular issue, the strategic list as it used to be called, has already diminished a good deal; that is to say, the range of goods covered by the strategic list is already substantially less than it once was. But I think that it would not be felt in Europe that it is yet as narrow as it really should be. At the back of this dispute lies a question almost of philosophy, which I tried to raise at the end of my remarks, as to whether it is still part of the background to our policy that we are aiming to weaken Communist countries wherever we can, as opposed to merely seeking to deprive them of direct strategic material and weapons.

I have no doubt at all that there was a time when the doctrine went much beyond the strictest strategic argument, and where it was felt in some Western circles that to hold up economic development, and to make things difficult for the Communist countries, was in itself a legitimate objective of Western policy.

What I am saying is that in Europe, at any rate, I feel sure that this is no longer the case.

I think the trivial example that I gave of my own institute shows that the American list—which is, I think, still considerably wider than the list applied by other countries to their own trade—must be quite wide. This instrument that I was referring to was a rather ordinary office calculating machine. Of course, you can argue that it can be used like anything else, as part of a war effort. But to include it in a list of strategic goods is stretching the term strategic very wide indeed. This is the sort of thing I had in mind. I am afraid I don't know in detail what are the particular items to which objection would now be taken on the American list, but I do know that there are items which are considered to fall within altogether too wide a definition.

Senator MILLER. Do you think the European attitude on this has altered at all in the light of the Middle East situation, and especially if it is true that the Soviet Union and the bloc nations are resupplying the Arab States with fighter aircraft and war armaments?

Mr. YOUNGER. I wouldn't have thought it made any difference. I am not suggesting that European countries would wish to see all limitations on strictly strategic goods and weapons removed. But I don't think it would be felt in Europe that what has happened in the Middle East was particularly relevant to the withholding of marginally strategic goods, the sort of hardware that could conceivably be used in some military connection, but would be more normally used in civilian affairs. I wouldn't think that Europeans would feel that that was at all relevant when you are considering trade with a country like Poland or Rumania. It would be thought to have nothing to do with it at all.

Senator MILLER. Well, suppose that Czechoslovakia were providing tanks for Egypt, and other war armaments, and there were a danger that this could result in a closing of the Suez Canal to the European nations. Do you think that under those circumstances that it would be prudent to expand trade between Britain and Poland and Czechoslovakia?

Mr. YOUNGER. I would very much like to know from Dr. Peccei if I am misrepresenting the European point of view on this, but I would think that in most countries of Europe, and I am sure in Britain, people are looking to a continuation of closer relations and of detente, which after all has been going on between the Communist world and the Western world at least for the last 3 or 4 years, at least since the Cuban crisis. They are not thinking of reverting to the earlier situation which existed, say, in the late 1940's or 1950's, because there was never believed to be a military danger. The object then was to weaken the adversary without any discrimination. Whether it was the Soviet Union or Poland or Yugoslavia or Czechoslovakia, the object was to weaken them. I do not believe that this philosophy holds anywhere in Europe at the present time.

Senator MILLER. But if the philosophy moves from a philosophy of weakening to one of strengthening, or to one of a timing, the opportunity for expansion of East-West trade would be a factor in causing certain actions which Europe does not like to stop. What I am getting at is that it seems to me that a closing of the Suez Canal, possibly the withholding of petroleum shipments from Arab States, is of great importance to Europe, and that with a view to enabling that situation to cease, there is the opportunity for East-West trade to be expanded which could be used as a bargaining point to mediate the situation in the Middle East. In other words, it doesn't necessarily come down to widening an economy, I don't think that is putting it realistically. It gets down to a matter of the negotiating propositions.

Mr. YOUNGER. I would go this far, that if one is trying to get improved relations between the East and West there is an element of diplomatic bargaining over a situation like the Middle East, in the sense that you can say, well, if you are wishing us to be more friendly in this or that sphere of policy, you can't expect to be free to conduct wholly hostile policies in another area. This, of course, is generally true, I suppose, as a diplomatic proposition. The whole world in that sense is one, when you are dealing between great powers. But I would have thought the connection between the closing of the Suez Canal, possibly as a result of some Soviet moral or material backing for Egypt, and the provision of more or less normal civilian goods, capital equipment

to, say, Rumania or Hungary would be thought in Europe to be very slight and, indeed, virtually nonexistent. I don't think people would see this as a possible bargaining element of any importance.

Senator MILLER. But certainly this must be a two-way street. If the bloc nations looked upon the expansion of East-West trade with great hope and expectancy, I can't understand why you say that this is a rather slim or marginal factor. I would think it would be a very great factor. And certainly, as you point out, their economies are weakening. If they have a hope to strengthen them, I would think it would be a very big factor. I can't understand why you would play that factor down in the diplomatic bargaining arena.

Mr. YOUNGER. I think there are rather important differences, if I may say so, between us on this. I suppose one of them is perhaps the assumption that by withholding some commodity from Rumania one can thereby bring direct pressure on the Soviet Union because of these other matters. It is much more the Soviet Union that is involved in the Middle East than it is Rumania, Hungary, or Poland. We don't regard the bloc, to use the old out-of-date phrase, as being very much of a bloc any more. And the danger that I see in what you have been saying is that this sort of doctrine can be used in Europe to support the proposition that Western Europe and Eastern Europe can never get back on reasonable terms so long as they have to follow an American policy of the kind which you have outlined. If the United States is always going to suggest holding back on East-West trade with Hungary or Poland because of annoyance with the Soviet Union in the Far East or Middle East or somewhere, this is precisely the argument that is used in Europe for separating Europe from the United States. I always combat that argument.

Senator MILLER. I don't think you have precisely stated the American policy as I understand it. And the American policy is certainly not this at all. It is a temporary matter hoping that in time it can develop into a genuine trading partnership. But it is a matter of timing. It is not an always, forevermore negative proposition at all. So, I think we ought to make that clear. But it just seemed to me—and I appreciate your frank comments about the attitudes, the European attitudes—and I was trying to point something that might be timely, because I know petroleum is of great concern to free Europe, and if Europe received the impression that the bloc nations were contributing to the difficulty of petroleum, I would say that from an American standpoint it would not appear to be a proper and prudent time to start expanding the trade. It would be a proper and prudent time to hold out the opportunity for expanding trade when the petroleum problem is diminishing.

Now, there is another point, too. I don't think that we ought to say that the American viewpoint toward the Soviet Union is identical with the American viewpoint toward the so-called bloc nations. I would like to ask you whether you feel that the trade approach ought to be identical vis-a-vis the Soviet Union and the bloc nations or whether you would recommend perhaps a more relaxed trade position with some of the bloc nations as against the position toward the Soviet Union at this time.

Mr. YOUNGER. I don't know that I really can conceive of any practical way of distinguishing between the Soviet Union and the other Communist countries in terms of discrimination against their goods. I wouldn't have thought that one would want to have any specifically separate policies. But of course I can see that on the other level that you were referring to; namely, diplomatic negotiation over certain situations unconnected with trade, like the attitude toward such areas as the Middle East or Southeast Asia, there might be a different diplomatic situation between the United States and the Soviet Union from what there would be between the United States and one of the small countries of Eastern Europe, whose say in those matters would obviously be minimal. These are matters which it would hardly be relevant to talk about in the smaller capitals, but it would be relevant to talk about them in Moscow. To that extent I can see that there is a distinction to be made.

Senator MILLER. And then that would lead you to conclude that there could be a difference in the trade basis as between one or more of those countries, and the Soviet Union? Would you go that far?

Mr. YOUNGER. I would expect that there probably would be as far as the United States is concerned. I think I am right in saying that there are distinctions made by the United States as between, for instance, the Soviet Union and China, or the Soviet Union and Cuba. These countries are not on an absolutely equal footing in U.S. policy at the present time, as I understand. So, I expect that for political reasons this distinction would probably be maintained. I don't know whether it would have much relevance except as regards the United States own trade. So far as the trade of, shall we say, Belgium with Poland, or with the Soviet Union, I doubt if the distinction would have much relevance.

Senator MILLER. As far as you are concerned, you can see no particular difference in the trade basis that should exist between Poland, Czechoslovakia, Rumania, and the Soviet Union?

Mr. YOUNGER. As regards the regulations one made for it, I would think probably not, no.

Senator MILLER. Thank you very much. My time is up.

Chairman BOGGS. Thank you, Senator.

Mr. Widnall?

Representative WIDNALL. Thank you, Mr. Chairman.

Dr. Peccei, Mr. Younger, we certainly appreciate your coming before the committee this morning and giving your statements. I am sure you have made a fine contribution to the discussion we have at hand.

I want to express my regret that I was unable to be here at the time you gave your statement. But I had advanced copies, and I read them last night, and I prepared questions.

Dr. Peccei, you mentioned the need for a sobering international action to bring under reasonable control the tendency toward the extending of longer credits to Eastern Europe and the Soviet Union. Would you say that in the technological position that Eastern Europe finds herself today that there is an opportunity beyond which long-term credit becomes, in actuality, a form of economic assistance?

Mr. PECCEI. Yes, sir. Very substantial and long-term credits to any of these countries will in the end result in economic assistance. I think that what we should have for the United States and Europe is a common yardstick, and that we should not compete with each other in extending more favorable terms, either for long-term or short-term credits, to the Soviet Union and Eastern Europe.

Representative WIDNALL. Would 15-year credit terms on a million dollar industrial plant incorporating the latest Western technology constitute a form of assistance not generally available to normal trading partners? I think you know what I have in mind when I am talking about that.

Mr. PECCEI. Yes, sir.

Representative WIDNALL. We have, as you know, the Berne Union, which was a multilateral agreement reached by Western Europe and the United States in 1934. This informal agreement discouraged credit terms beyond, I believe, 5 years. The Berne Union limitations, are they still realistic, or should they be renegotiated?

Mr. PECCEI. The provision for the limit of 5 years in the European agreements has been in fact disregarded by all exporting countries with respect to all the developing nations and also in the case of Eastern Europe. Europeans have extended credits to India, Argentina, Brazil, and others on much longer terms than those. As to Eastern Europe I think we should come to a certain understanding among us that the rule should be for instance, 8, 9, or 10 years, and then stick to the agreed terms. The terms you mentioned a while ago should be considered as a very exceptional case.

Representative WIDNALL. What are the terms?

Mr. PECCEI. Payment will begin after completion of delivery and will take place from 1971 to 1979.

Representative WIDNALL. What interest rate is charged?

Mr. PECCEI. 5.6 percent.

Representative WIDNALL. Is it not a fact that sometimes reckless extension of credit to the East was one of the prime sources of trouble for the Krupp industries in West Germany?

Mr. PECCEI. Would you repeat that?

Representative WIDNALL. Is it not a fact that reckless extension of credit to Eastern Europe was one of the prime sources of trouble for Krupp Industries in Western Germany?

Mr. PECCEI. I am not sure of that, because I think the credit extended was not in very big amounts. I think in the case of Krupp the trouble had something to do with management.

Representative WIDNALL. I don't have the figures here, but I thought it was quite sizable. With regard to the proposed Fiat deal with the U.S.S.R. have any orders for machine tools been placed with U.S. firms yet?

Mr. PECCEI. To my knowledge no, because the necessary credit arrangements have not yet been approved. If they will eventually be approved, there is a long list of machines which will be ordered by the Soviet Union on the recommendation of our technical people.

Representative WIDNALL. Would Export-Import Bank participa-

tion in the U.S.S.R.-Fiat arrangement be an absolute necessity or consummation?

Mr. PECCEI. I am not in a position to give you a lucid answer.

Representative WIDNALL. Is Fiat prepared to move ahead without U.S. machine tools?

Mr. PECCEI. In all likelihood, yes, because there surely are other machine tools, which can be obtained from England, Germany, and perhaps Italy, and which can be a substitute for the U.S. machine tools which are considered now.

Representative WIDNALL. I have been very interested in looking over some trade figures which I obtained from the Library of Congress on the balance of trade of Western European countries and the Soviet Union and Eastern European countries in 1965, and the first half of 1966. These figures show a considerable deficit in trade with the Soviet Union for both 1965 and 1966, and a deficit changed to a surplus with Eastern Europe in 1965 and 1966. Now, given the change between 1965 and 1966 from a deficit to a surplus intrade with Eastern Europe as opposed to the Soviet Union, what has been the reason for this?

Mr. PECCEI. I think in the case of the Soviet Union they are buying presently more than they are selling in Western Europe; and they are buying on credit terms and selling mostly cash.

Representative WIDNALL. Actually, the balance is in favor of the Soviet Union for both 1965 and 1966 in the trading with Western Europe?

Mr. PECCEI. It might be that they stepped up their sales to Western Europe to offset the adverse trade balances.

Representative WIDNALL. I would like to ask both of you, should we really be talking of East-West trade as a whole, or rather trade with particular countries?

Mr. PECCEI. I think that if we consider our long-term policies, that is, what are we going to do as far as trade is concerned with that part of the world during the next 10 years, we should devise an overall harmonious policy for the whole area, which then may have different implementations as to different countries. For instance, already now in the case of Yugoslavia, many European countries are following different practices than those applied to Eastern Germany. But I believe that we must come to an overall decision as to what to do on the long run for Eastern Europe and the U.S.S.R. as far as trade is concerned.

Representative WIDNALL. Mr. Younger, would you answer that, please?

Mr. YOUNGER. I don't know that I am very well qualified in this field to say more than I have already said. What my original remarks were aimed at was an over-all discrimination in Western trade against trade with Communist countries as such. And my view there was that one would wish to see that discrimination diminished or abolished, except in a purely strategic aspect, for all alike. Obviously, the application of this might work out differently in the case of different countries. They have very different capabilities of trade with the West.

Some of them would probably not be able to take much advantage of any relaxation.

But I would agree with Mr. Peccei that in the long run one has to treat the whole of Eastern Europe as one in this regard. East Germany has been an obvious exception up to the present time on political grounds. I don't know myself whether this exceptional position is going to survive another 10 or even 5 years. I think that the future problem is going to be one of the attitude toward Communist countries in Eastern Europe as a whole rather than of discriminating in each case, at least as far as legal discrimination is concerned.

Representative WIDNALL. It would seem to me that there is more opportunity for economic and political benefits for trade with particular European countries rather than just in general East-West trade. Don't you think that that might be the best approach?

Mr. PECCEI. No doubt, and practically that is a reality already. Also, in the near future it will be much easier to deal individually with the Rumanians or the Hungarians, the Czechs or the Eastern Germans. But that will be the practical side of an overall policy which should be considered, having in mind the whole of the area.

And if I may add one comment, I think that we must try to assess accurately which would be the results of much greater trade with that whole area, say, in the next 15 years. Because much greater trade with the West would probably mean a greater diversification of their economies. And this diversification will probably reduce the efforts they are doing now, say, in the military or paramilitary fields, increase the importance in their societies and economies of the civilian sector and divert resources and energies towards the production of consumer goods; that is, toward more peaceful ends. And that study is something that I think has not been really done yet, but is worth doing on the part of the United States and of Europe, too. In this connection I would like to add to the records of this subcommittee if you allow me. Mr. Chairman, a paper I prepared on this subject and which was published in the spring issue of the Atlantic Community Quarterly.

Chairman Boggs. We will include it in the record.

(The report supplied by Mr. Peccei's follows:)

DEVELOPED-UNDERDEVELOPED AND EAST-WEST RELATIONS*

[By Aurello Peccei]

To place in perspective the growing world problems during the next ten or 20 years requires far more understanding and imagination, wisdom and capacity for synthesis than we are accustomed to demand of ourselves.

In modern society the issues are so broad, complex and global, and the speed of change has become so rapid, that man's very qualities and his capacity to meet them will certainly be put to test.

To start with, he must realize where he is in the world and what his assets and liabilities are; then he must consider in what direction he is actually heading; and finally, decide where he wants to go and can go, using which means and at what price.

What in the past was only abstract design or moral commitment we are now in a position to consider in more positive, operational terms. And this we must

*A paper presented at the Business International Bermuda Roundtable on Corporate Planning Today for Tomorrow's World Market, December 15-18, 1966. Reprinted by permission, from The Atlantic Community Quarterly of the Atlantic Council of the United States, Inc. Spring 1967.

do, for our own sake, for now we control forces which match those of nature itself and produce machines capable of multiplying the power of our arms and brain. For the first time we may decisively influence our future, create a great society or totally destroy it.

Therefore our thinking has to acquire a new dimension, in keeping with human expectations and the dangers and opportunities of our various societies at this point of history; failing which we may all too easily lose control of the shrinking arena of growing contrasts which is our world.

I will attempt to give some indications as to what kind of thinking in my opinion we should produce not only to keep this explosive arena manageable during the next decade, but also to insure that life therein can be lived in a way befitting our quality as civilized human beings.

Above all, the new relation between man and his future poses problems of leadership.

If we take our macrocosm, the world as a whole, the first-choice first-refusal right to leadership should be in the hands of peoples and countries capable of taking up the main challenge of our times. I am convinced that West and West alone can, at the present time, muster the intellectual and organizational capacities in order to marshal and guide the tremendous pace of the technological revolution and to provide thereby means and rules for the progress and prosperity of all mankind.

Furthermore, Western culture can greatly contribute, in a joint effort with the other new and older cultures of the world, to the solution of the supreme dilemma of how to reconcile man with the world which he himself is progressively de-humanizing.

However, at the present reading the West has not yet picked up this leadership option. Although in the race for progress it is way out ahead, this hardly means that it is offering guidance to the others. It is not even clear if the West knows itself where it is going.

The Western nations in fact are not united. And lack of unity has so far prevented them from taking a constructive long-range lead in world affairs.

Moreover, their unprecedented riches and the protection of the U.S. nuclear umbrella are lulling them into the illusion that they can live permanently in a privileged position.

This is another reason why we should wake up to the complexities of our world and think well ahead.

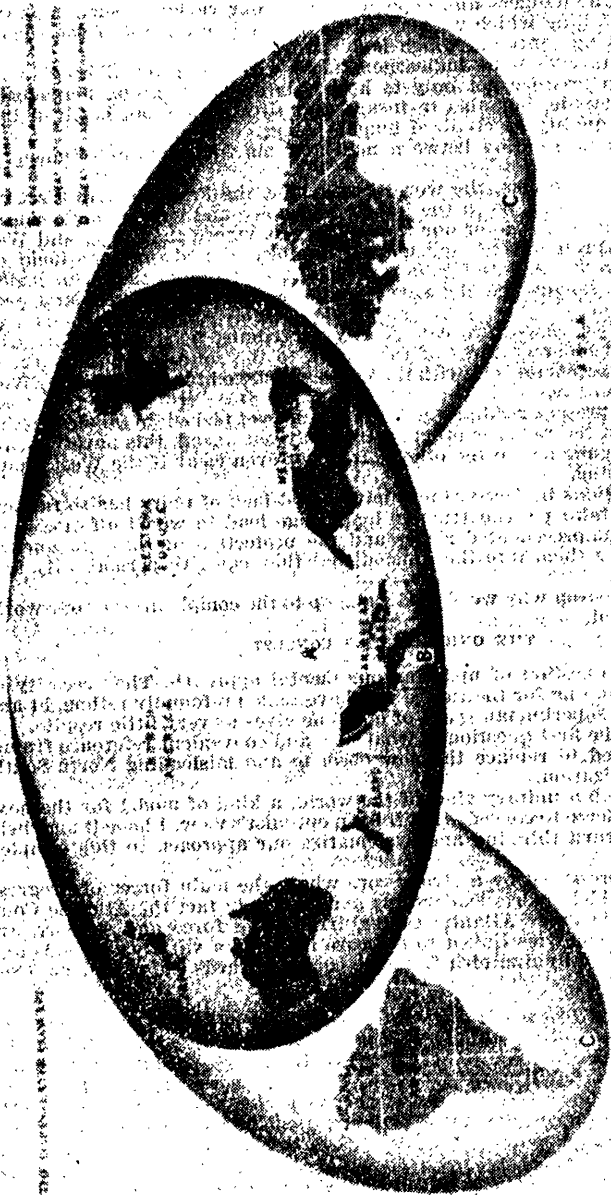
THE ONION LAYERS CONCEPT

It is not only a question of updating our mental approach. The necessity of forecasting and planning for the future will have to be profoundly rethought and the supersonic and superhuman speed of our time gives us very little respite.

Looking ahead, the first question is what new and convenient reference framework can be devised to replace the now obsolete and misleading North-South, East-West schematization.

Let me then sketch a unitary view of the world, a kind of model for the next decade, although I have to concede that it is an optimist's view. I hope it may help formulate our forward thinking and systematize our approach to this complex world of ours.

The world is represented by a strong core where the main forces of progress are centered and which exerts leadership; and that is in fact the Atlantic Community. Around this great Atlantic center, irradiating force and support, are concentric belts of countries linked to the core itself by a variety of bonds and interests which gradually diminish from the center towards the periphery. (See map.)



BEST COPY AVAILABLE

This image may be compared to the layers of an onion, and there are three principal layers around the Atlantic core:

The special relationship countries; the great outside development regions; and areas of later development.

This concept of the world of the seventies, is again geopolitical. But it makes sense, not least when we consider it from the socio-economic development angle and understand that development, though it be a global issue, cannot be promoted everywhere at the same time nor at an equal rate and with equal success.

In the first layer there are groups of countries which, for different reasons, such as tradition, culture, geographical position and level of development are in a special relation with the Atlantic countries.

We should not spare any effort nor leave any stone unturned in order to have them develop as rapidly and as homogeneously as possible with respect to the Atlantic area during the next decade.

OPERATION EASTERN EUROPE

First among them is Eastern Europe. We can foresee that these countries will tend to gravitate ever more toward Western Europe as they gradually develop and increase their foreign trade and also because of the consequences of peaceful engagement policies towards the East. Operation Eastern Europe should, however, be geared to Operation USSR of which we will speak in a moment.

This new rapprochement between two groups of European peoples which have been historically engaged in trade, alliances and wars, and which are bound by a common culture, may represent a basic feature of the coming decade. Furthermore, it represents a sine qua non condition for the coming together of the two Germanies with a view towards a later reunification; it is therefore the keystone for resolving one of the great problems which has remained unsolved so far.

A second group consists of the non-European countries of the Mediterranean basin which are linked to Europe more than to any other region or country. The reciprocal attraction between them and Europe is likely to increase in the near future, again under the spur of growing trade, coupled with investment and tourism and the complementary nature of the two areas in terms of demand and supply of manpower.

Europe should see that it is not only to her advantage but also her mission to develop these countries, which in any case cannot do the job themselves. The concept that the Mediterranean basin—as a development area—is a prolongation of Europe serves the interests of all the peoples around its shores and by extension the interests of the Atlantic Community itself. Probably the thorny problem concerning Israel and the Arabs could, with strong United States backing, find a solution in this enlarged European framework.

A similar special relationship is that linking the United States with the peoples living in the great continental and insular expanse immediately to her South.

THE CENTRAL AMERICAN AREA

This is an area to which the United States is obviously rather sensitive. It includes the Caribbean countries (Cuba as well, in due course); those grouped in the Central American Common Market, and Mexico although she is a member of LAFTA and deserves a position of her own. It is of prime interest to all these countries that one of the main objectives of the Atlantic Community, and the United States for sure, should be that of helping them draw up and implement a long-term growth and modernization plan.

Finally, the developed countries of the Pacific: Australia, New Zealand and Japan, also participate in the Atlantic area of progress and prosperity although they do not directly belong to it. The same is probably true for the Philippines.

All countries belonging to this first layer are in one way or another a logical extension of the Atlantic Community and should be considered as such. They can receive immense benefits from their integration into or association with the Atlantic Community, while keeping their own national characteristics and their own political philosophy and institutions.

If these achievements and developments are feasible, it would be unforgivable if the Western countries did not plan ahead this way. The urgency is such that from this very moment the United States and the European nations should consult on how to cooperate and lead these first layer countries towards a future of progress within the Atlantic framework.

The second layer is represented by two great regions: the Soviet Union and South America. It will depend on their amalgamation into the Atlantic area

of progress and prosperity whether history will see the next decade as a decade of great development or as a time of growing dangers for mankind.

The peaceful and constructive engagement of these external areas should be contemporaneous to the consolidation of the inner layer of countries more tightly linked to the Atlantic Community.

As far as the USSR is concerned, it is difficult indeed to forecast her political, economic and organizational development in the next ten years.

The Soviet leaders have repeatedly declared that the Soviet Union must make an all-out industrial effort, and that this effort is essential to her future. However, the giant bureaucratic apparatus of the country has yet to prove that it can undertake it.

At the beginning of this century a Russian historian pointed out that his country's progress was barred by the enormous weight of the state administration. Presently there is no great change in this situation. Furthermore, the USSR must also overcome great internal difficulties before attaining such essential goals as self-sufficiency in the production of agricultural and consumer goods, increasing the quality and variety of industrial products, and diversifying exports.

A NEW SOVIET COURSE OF ACTION

The Soviet Government is making an agonizing reappraisal. They have come to accept that their industrial economy and their administrative apparatus are entirely inadequate. Hence the new course of action based on profit and automation.

The new Five Year Plan approved last spring embodies these directives, and its objectives seems much sounder and more coherent than those of the previous Plans during the last 30 years. Its nonvoluntaristic character, as they call it now in the USSR, means that it should be more reliable, less bent on propaganda. In this respect it goes somewhat back to the earlier Soviet tradition which is at the root of the technique of modern planning.

The five-year period covered by the present Plan may represent a crucial turning point for the second world power. After the galling and costly setbacks in agriculture, the system has a second chance to prove its validity by successfully modernizing industry and substantially increasing overall productivity.

On the basis of the present situation in Russia some observers have considered various possible developments in their forecast. In our analysis we shall consider two opposite and extreme alternatives whose seeds are apparently already present in Soviet society.

According to the first alternative, whose plausibility is to some extent borne out by some attitudes of the present Soviet leadership, the Party and the Government will go all the way with the new course, courageously devoting their energies and capacities to devising and trying new measures to bring about all the necessary structural and economic reforms. For the top echelons in the Soviet Union this will also represent a dramatic form of self-criticism.

Apart from the expected results in the economic field, important political consequences may ensue. The inevitable social and psychological crises which will be caused by such reforms may lead to a partial democratization of the political system and an alliance of the establishment of the top echelons with the intelligentsia permitting better use to be made of the country's intellectual capacities.

Accurate balance of these reforms will be necessary within the USSR to avoid a sharp downturn in the standard of living, thereby igniting social explosions. As to external conditions, peaceful coexistence alone will probably not suffice. Only extensive cooperation extended to the USSR by the Western countries can put at her disposal the vast resources of foreign exchange and the managerial techniques which only the West possess and which are indispensable for this historic transformation of the Soviet economic system.

If this perspective is not altogether unrealistic, new opportunities undreamed of during the '50s and early '60s open up before us. Can we let them pass us by? Is it possible for us to cautiously foster their appearance?

The other extreme alternative is that reactionary elements will block renovation so that the status quo will continue within the USSR; and the present international situation of bare co-existence will go on, interspersed with recurrent crises of the Vietnam type.

DISRUPTIVE FORCES IN THE USSR

If this occurs, the economic vicious circle of low standard of living-low productivity will in all likelihood be perpetuated. Under the spur of increasing demands from the population the situation may one day become untenable. The disruptive

forces still present in Soviet society would then emerge. The efforts to marshal events by a drastic return to stalinist methods would inevitably result in a worsening of the domestic and international situations, without solving the problem altogether.

The result might be a progressive disruption of the country with the possible break-up of Soviet society into forms we cannot anticipate. This occurrence would spell suffering and grave risk, not only for the USSR. And the development of such a disruptive process could result in the Soviet leaders pursuing aggressive policies abroad.

In any case, the break-up of a country which has a world position such as the USSR would create a power vacuum and a chain reaction of unpredictable but extremely dangerous crises in international relations, thereby increasing once again the effective dangers of war.

In conclusion, the Soviet Union may shortly find herself at the crossroads. The decisions she will take may powerfully affect our lives. Ours may advance hers, and greatly influence her course. They may represent the decisive factor for the East-West and world relationships in the years to come.

When the chips are down, the United States is bound to accord first place to her own hemisphere and to the risks and opportunities which lie on her own doorstep. Europe as a whole, not only Latin Europe, is linked to Latin America by a variety of bonds: bonds of culture, bonds of tradition, and complementary economies, unique in comparison to other regions of the world. There are other objective reasons why Latin America comes first and these are illustrated by the case of Adela.

THE CASE FOR LATIN AMERICA

Adela was devised for Latin America; it could not have been launched for any other developing area. When this novel undertaking was decided upon, the case for Latin America was stated as follows:

The continent has been independent for 140 years, whereas in Africa, non-Communist Asia, and most of the Middle East countries independence is new or quite new. Latin America has had decades of experience with various forms of self-government, or at least local government, and in most of the countries there is deeply-held popular allegiance to the concept of government by the people. There is a great deal of illiteracy, but there is also a great deal of literacy. The cadres are made up of reasonably well-trained and responsible people. It will be a miracle if Africa, for example, manages to have comparable cadres two decades from now.

Latin America is also more fully prepared than the other developing areas in the growing validity and strength of its regional institutions, such as IADB, OAS, ICAP, LAFTA and CAOM.

Another basic difference characterizes the problem of development in Latin America, where there are fundamental contrasts between regions and within economic sectors. Underdevelopment in Asia and Africa, on the contrary, is much more even. These contrasts, which are the reflection of bottlenecks and obstacles to development, are also the symptoms of ferments and vitality which are not to be found in the stagnating areas. They also mean that the forces of organization are beginning their process of polarization.

LATIN AMERICAN TESTING GROUND

Finally, Latin America has had extensive experience with a system of economic activity based primarily upon private endeavor. The bulk of activities which Americans or Europeans would consider to be normally in the private sector, are in the private sector in Latin America.

Latin America therefore is presently the great testing ground as to whether a system substantially based upon political freedom and private economic endeavor can work in an underdeveloped region. And the world work has to be interpreted not only economically but also socially and politically.

It depends on Latin American decisions whether an adequate and combined policy for Latin America can be started by Europe and the United States, or whether Europe and the United States will be inclined to indulge in their present uncoordinated and sometimes antagonistic policies with little benefit to Latin America.

Another question was raised some months ago by a prominent American political leader: "whether or not Latin America can successfully walk the razor's edge across the development threshold depends to a large extent on whether or not civilian, democratically elected governments there can provide sufficient satisfaction."

But the progress and prosperity of 200 million Latin Americans will greatly depend on the vision and on the action taken by the Atlantic countries as well.

If the Atlantic countries will accept their prominent responsibilities towards Latin America as a basic feature of their long-term policies, and not only as an extemporaneous posture in times of political and financial emergency, another sound basis will have been established for tackling the problems of the '70s.

The third and last layer comprises the remaining countries of the world, namely Africa south of the desert belt from the Sahara to the Red Sea (except the Union of South Africa, which I am at a loss to categorize), China and that part of Asia which does not belong to the first two layers.

With respect to these really underdeveloped countries (including China, some day) we should—during the next decade—expand trade with them and extend trade facilities; step up economic aid, technical assistance and credit support; and help them exploit their natural resources; jointly devise how they should industrialize, increase agricultural productivity and organize their markets; and do as many other things for their benefit as we can.

We should, and do doubt will, also adopt emergency aid measures, expressing our solidarity in case of calamity.

But in our global appraisal and planning we must be clear in our mind.

Whatever we do, these countries by and large will not mature towards anything approaching our standards of organization and growth capacity. Their philosophy of life, their beliefs, values, motivations and attitudes—in some cases the heritage of a great culture older than ours—their total approach to what we call modern civilization, all these fundamental elements on which the future rests are not homogeneous with ours.

THE WEST'S ROLE IN UNDERDEVELOPMENT

Whatever we do, these countries will remain areas of later development as we understand it, and a matter for our thoughts during the '80s under this aspect.

As we realize this situation and try to map out the future globally, we are led to make a most painful reappraisal, that of redimensioning and timing the West's role with regard to underdevelopment.

It is quite obvious that we are facing here a most critical contradiction.

In fact, on the one side, interdependence is growing and modern communication systems make it possible for any point on the globe to be reached speedily and promptly, and for any people to reach other people, no matter how far apart they are geographically, culturally or politically. Yet, on the other side, the technological revolution, which has reached such momentum in the last few years, is creating at the same time a gap in this shrinking world among countries which were by and large considered to be at a compatible level of development until not too long ago.

This gap becomes immense and awesome when it is considered with regard to underdeveloped peoples. It is a gap in development level. The less endowed countries are not in a condition to absorb aid and the new technology, and therefore sink further in relative terms. In its turn, this causes a greater quality gap. As time passes the acquisitive capacity of these countries becomes weaker and weaker as technology becomes ever more complex. The gap widens to unbridgenable proportions: a gap in per-capita income, in growth capacity, in understanding, in everything which characterizes societies nowadays.

In fact Asia encompasses societies permeated with ancient traditions and cultures, which under present conditions can hardly be expected to be influenced from outside to the point of accepting radical change. Their customs are such that many aspects of modern life appear to be totally uncongenial to them.

Suffice it to consider the tragic struggle in India between the need of modernizing agriculture and the religious belief which makes cows and monkeys sacred, when the sanctity of cows and monkeys perpetuates starvation among men. Suffice it to consider the turmoil incomprehensible to Western minds which is the torment of China.

As to Africa, the last continent affected by the hurricane of political independence, it is still trying to weather the transition from a highly divided tribal society, to a nationhood in many cases difficult to trace and define. There is very little chance of planning ahead there. The economic and political viability of too many of the new African states is questionable at best.

In the face of this situation, we must also recognize that there are definite limitations with regard to both our human and material resources. We may feel deeply the human urge, but it would be unrealistic for us to plan a massive and decisive contribution toward solving the problem of underdevelopment in Asia and Africa.

It follows necessarily that the West will have to give priority to the countries we have already mentioned, and postpone consideration of this massive commitment in Asia and Africa by ten years or so. In the meantime, present technical and financial aid should be continued and possibly increased for humanitarian reasons, irrespective of the fact that we do not expect that it will in the least change the situation for the time being.

THE ATLANTIC CORE

In the meantime we will hopefully also have set our Western house and its adjoining areas in order, and gained more strength. From that expanded and consolidated platform the problems besetting the vast human masses of Asia and Africa can then be systematically tackled with some better chance of success.

Advancing this conclusion, I realize that ten years is rather a long time for a human being, and even more so for a suffering human being. But it is not a long time in history.

The contrary solution would be self-defeating. The world, East-West-South-North all together, would be doomed to bankruptcy, should large (and yet insufficient) resources be prematurely drawn into the blotting paper named Asia and Africa. And probably none of the other objectives we have indicated for the next decade would be accomplished.

The unitary concept of the world we have expounded as a basis for our thoughts for the future rests on the assumption that the Atlantic core be there, and that it will exude vitality and guidance.

Although the Atlantic Community of the United States, Canada and Europe is our foremost concern and hope, I will not deal with it here, beyond saying that I believe it represents quite an attainable objective for the early seventies.

Let me, however, make a few observations about Europe, the old yet respectable continent with traditions, vested interests, divisions, contrasts and contradictions, and which represents the crux of the matter.

It is much harder to correct and amend rather than create anew, and Europe is an example. Europe has already caused two world wars; the germ is still latent, fortunately inactive and perhaps rendered innocuous. There is also the danger that new affluence may soften its societies, dampen the driving force and imagination its best spirits must possess at the present juncture.

DISARRAY IN EUROPE

Moreover, Europe is presently at low ebb. Disarray in the EEC, difficulties in the ECSC, gloomy economic outlook for England, uncertainty in Germany, Scandinavia going through a recession, Spain still reluctant to adopt modern institutions, Italy slow in reforming and modernizing her structures, Gaullism rampant not only in France.

In spite of these real dangers, these shortcomings and these psychological obstacles, there is, in my opinion, room for optimism. Within 18 months from now all internal custom barriers will be abandoned in the EEC; and the great majority of people want the United Kingdom in. Most European corporations and many American ones, too, plan ahead with an integrated European market, not against it. Public opinion is mature. Many other instances may be offered that European unity-economic integration at least—is not too far off.

The day the Europeans find themselves free from their present divisions and inhibitions, and realize the marvelous adventure they are about to embark upon, all of them together, a new Europe will emerge and the stage will be set, I believe, for another Renaissance.

But in the context of the world situation, Europeans cannot consider Europe merely as a new continent-state whose birth is nothing more than the integration of an array of nation-states. They must conceive it as Europe-plus. They must form it with the objective of marching towards an Atlantic Community, with a keen sense of their responsibilities and chances at this juncture in history.

And in this process the influence of the United States on Europe will be enormous. The major burden of steering the future course of humanity and shaping our destinies certainly resides with the United States of America, at least pending the creation of the Community.

There are the authentic and effective levers of power. There a new society is growing out of its continental confinement, out of its obsolete inclination for iso-

lationalism, a society evermore aware of its worldwide responsibilities. There are the most advanced technological achievements, effectively and unceasingly conceived and utilized.

There the Atlantic Community must be prepared while Europe evolves towards unity.

Because of all these formidable assets, the world, and Europe in particular until it has reached its unity, rightly expect the United States to take decisive, bold and enlightened initiatives toward a new world.

SECURITY IS DEVELOPMENT

In this survey I have not touched upon the military aspect, firstly because I am utterly unqualified to speak on this matter, and secondly because I am naive enough to believe that if we succeed imaginatively and courageously in mapping out our objectives and in intelligently charting our way towards them, the world will be immensely more secure, and military problems will become less and less relevant.

For Americans and Europeans alike, let me quote a top-flight expert, Secretary McNamara, hoping that his words really have the high moral meaning I read in them:

"In a modernizing society, security means development. Security is not military hardware—though it may include it. Security is not military force—though it may involve it. Security is not traditional military activity—though it may encompass it. Security is development.

"Without development, there can be no security. A developing nation that does not in fact develop simply cannot remain secure. It cannot remain secure for the intractable reason that its own citizenry cannot shed its human nature. If security implies anything, it implies a minimal measure of order and stability. Without internal development of at least a minimal degree, order and stability are simply not possible. They are not possible, because human nature cannot be frustrated beyond intrinsic limits. It reacts—because it must."

I am afraid that what I have been saying will stir controversy more than arouse consensus.

If, however, some merit is to be seen in the concepts and the study program which I have outlined, practical questions will follow.

Let me suggest that three steps may be considered in this respect.

Firstly, that the program for the seventies be sponsored by the highest political authorities who should lend it their prestige and maximize the impact on international public opinion of this nonpartisan endeavor to penetrate into the future.

A PRAGMATIC APPROACH NEEDED

Secondly, that the program be entrusted in fact to a non-political non-controversial institution such as a foundation of high repute, whose task should be to prepare the terms of reference and then to mobilize and co-opt the most qualified institutions, research centers, academies and individual experts from all over the world. A pragmatic approach should be adopted to carry it out and use should be made of studies by other bodies; assignments should be given to ad hoc groups in the various fields, political, social, economic, technical, scientific, and so on; specific investigations, appraisals and model simulations should be made in areas and sectors of special interest; alternative assumptions and trends should be considered and their effects discussed; and finally the entire documentation should be reviewed for coordination and harmonization and with a view to making possible recommendations.

Thirdly, that a report be prepared on what is expected to be the shape of the world during the next ten years according to various alternative groups of assumptions, objectives and policies; and on which strategies could make it a better world to live in. The report should be made public, save for those recommendations which by their very nature would be submitted for consideration only to centers of power.

Business cannot progress if society and the world do not progress. Corporate planning is meaningless if North-South, East-West relationships go unplanned. Corporate long-range international programs require that the future world environment, conditions and consequently business climate be reasonably assured.

However, I am fully aware that it is unthinkable that a program of the nature and magnitude I have outlined should be conceived, formulated and enacted

without the determinant participation of the International Corporation which, inasmuch as it is international, is certainly world aware, and inasmuch as it is a corporation, represents the highest expression of modern efficiency, drive and capacity to deliver.

For these reasons, I believe not only that large banks and big industrial concerns have a great stake in our society setting its course towards systematically striving for a more secure and developing world; but also that all of them should combine and commit their unequalled organizing and planning capacity towards decisively contributing to this objective.

Representative WIDNALL. Mr. Chairman, I have two unanimous consent requests, one to include to my remarks today the Library of Congress report from the Legislative Reference Service on the "Balance of Trade in Western European Countries with the Soviet Union and East-West for 1965 and the First Half of 1966."

Chairman BOGGS. Without objection.

(The report follows:)

LIBRARY OF CONGRESS

LEGISLATIVE REFERENCE SERVICE

Balance of Trade of Western European Countries With the Soviet Union and East Europe,* 1965 and 1st Half of 1966

[In thousands of dollars]

| Country | 1965 | | | January-June 1966 | | |
|------------------------|----------|-------------|----------|-------------------|-------------|----------|
| | U.S.S.R. | East Europe | Total | U.S.S.R. | East Europe | Total |
| Austria..... | +4,383 | +13,765 | +18,148 | +6,641 | +11,044 | +17,685 |
| Belgium-Luxemburg..... | -23,492 | -3,612 | -27,104 | -7,900 | +4,378 | -3,522 |
| Denmark..... | -8,759 | -14,243 | -18,002 | -6,376 | +808 | -6,068 |
| Finland..... | -4,620 | -1,924 | -6,544 | -31,843 | +1,051 | -30,792 |
| France..... | -73,993 | +102,647 | +28,654 | -47,902 | +87,312 | +39,410 |
| Germany, West..... | -63,973 | +48,951 | -15,022 | -52,560 | +98,450 | +45,890 |
| Greece..... | -9,620 | -17,874 | -27,494 | +3,242 | +3,200 | +6,442 |
| Iceland..... | -5,333 | -1,705 | -7,038 | +849 | +1,036 | +1,885 |
| Ireland..... | -1,025 | -11,120 | -12,145 | -1,250 | -5,553 | -6,803 |
| Italy..... | -83,178 | -25,733 | -108,911 | -51,013 | -23,785 | -74,798 |
| Netherlands..... | -23,632 | -22,801 | -46,433 | -10,934 | -558 | -11,492 |
| Norway..... | -9,640 | +4,543 | -5,097 | -5,042 | -1,026 | -6,068 |
| Portugal..... | -116 | -5,673 | -5,789 | (1) | +642 | -642 |
| Spain..... | -19,058 | -24,974 | -44,032 | -1,839 | -764 | -2,603 |
| Sweden..... | -2,087 | -3,201 | -5,288 | -20,489 | +6,186 | -14,303 |
| Switzerland..... | +3,111 | -59 | +3,052 | -3,003 | +10,246 | +7,243 |
| Turkey..... | +2,019 | +7,118 | +9,137 | -2,760 | +4,648 | +1,888 |
| United Kingdom..... | -204,453 | -89,351 | -293,804 | -50,964 | -39,969 | -90,933 |
| Yugoslavia..... | +79,641 | +10,792 | +90,433 | +18,226 | -59,937 | -41,711 |
| Total..... | -458,825 | -34,454 | -493,279 | -265,417 | +97,409 | -168,008 |

¹ Less than \$500.

*Prepared by Vladimir N. Pręgal, analyst in international trade and finance, Economics Division, Legislative Reference Service, Library of Congress, Apr. 4, 1967.

Source: U.S. Bureau of International Commerce, International Trade Analysis Division, exports of free world countries to Communist areas and imports of free world countries from Communist areas, January-December 1965 and January-June 1966. All Western countries listed value exports f.o.b. and imports c.i.f.

Representative WIDNALL. And the second request is on behalf of Congressman Curtis. He would like to have placed in the record the European Free Trade Association Experience in Abolishing Barriers to Trade, a report issued from the Washington Information Office. This is a very able discussion of how the EFTA has adjusted to the reduction of trade barriers. I think it would be very helpful.

Chairman BOGGS. Without objection it will be incorporated in the record.

(The report referred to follows:)

THE EFTA EXPERIENCE IN ABOLISHING BARRIERS TO TRADE

GEORGE R. YOUNG, DIRECTOR

JULY 10, 1967.

In the past ten years there have been two large-scale practical demonstrations in Western Europe of the effect of the adoption by industrial countries of liberal trade policies. In both cases the abolition of trade barriers has been accompanied by remarkable increases in trade and also in the economic growth of the participating countries. The fears of particular industries have been proved, almost without exception, to be without foundation in practice. The "escape clauses" which were incorporated into the agreements between countries to reduce tariffs have been little used, and then only for short periods. Perhaps most striking of all, as a result of these experiences the industrialists of Europe, with few exceptions, now have a much more relaxed attitude in regard to protection. They see a steady rate of economic growth as being much more important to their future prosperity than any measures to protect them from outside competition.

This recent European experience means that decisions on trade policy can now be made on a much sounder factual basis. In past years, decision-making on trade policy consisted of trying to choose between different hypotheses. The advocates of liberal policies expressed their confidence that all nations would greatly benefit from the reduction of barriers to international trade. Advocates of protection, on the other hand, sought to forecast the serious and possibly calamitous effects on particular industries, and on the economy as a whole, of a flood of foreign imports following the reduction of trade barriers. Government decisions on trade policy therefore inevitably represented a choice, or more often, a compromise between these different hypothetical possibilities.

The European experience of free trade in practice has vindicated those who analyzed U.S. prosperity as being very largely due to the existence of a huge single market without significant barriers to internal commerce. This example was accepted as the one for Western Europe to follow twenty years ago, when the OEEC was established to administer Marshall Aid and to liberalize trade and payments throughout the region. The effects of this liberalization were already apparent when decisions were made to embark on more intensive reduction of trade barriers in Europe, first by the formation of the European Economic Community and secondly by the creation early in 1960 of the European Free Trade Association (EFTA). This paper seeks only to analyze the economic effects produced by EFTA integration; it need only be said in passing that results in the EEC have been of the same type.

On the last day of 1966, trade in manufactured products between the EFTA countries—Austria, Denmark, Finland, Norway, Portugal, Sweden, Switzerland and the United Kingdom—became free of quota or tariff barriers, save for some minor temporary exceptions. EFTA became a single market, as is the United States, and industrial trade between its member countries became the equivalent of interstate commerce. Externally, of course, each EFTA country maintains its own tariff structure toward other countries. EFTA has no common external tariff.

For the largest member of EFTA, the United Kingdom, completion of the free trade area represented a doubling of her home market. For the smaller members of EFTA, their home market was enlarged between 10 and 25 times. In consequence, production and trade in the EFTA countries now operate in a quite different environment. The Swedish manufacturer, for example, now has a home market 12 times its previous size. It follows that his investment, production and marketing decisions must be set against a new background. It follows also that structural economic changes must be expected over future years. The tendency toward larger units of production and distribution is already very marked in EFTA and can confidently be expected to accelerate.

But the free trade area did not come into being overnight. The process of reducing trade barriers began in 1960 and proceeded by reductions of 10% to 20% a year until the end of 1966. In other words, the businessmen of the EFTA countries have had a new background for their decisions for several years past, based on the commitment by their governments to the timetable of tariff cuts. Even during the transition period, therefore, very encouraging results were obtained in terms of increased trade. Taking EFTA as a whole, commodity trade between its eight countries increased from \$3.5 billion in 1959 to \$7.5 billion in 1966, an increase of 110%, or an average growth of about 12% a year. In those

years the trade of EFTA countries with each other grew at almost twice the rate of their trade with the outside world—and at twice the rate of growth of trade between the EFTA countries in the six years before the Association came into being. This development was certainly partly due to the stimulus of general world prosperity in those years and possibly partly due to some diversion of trade from non-EFTA countries to EFTA partners, but largely also a result of new trade created through EFTA tariff dismantling.

Within the overall figures for EFTA, however, there were even more striking trade increases between member countries. One of the difficulties of EFTA cooperation is the fact that its member countries lie in a sort of ring around Western Europe, so that the Association does not share the advantage of the EEC of being a geographically contiguous grouping. It happens, however, that the four Nordic countries are all in the Association, and they do represent a contiguous grouping with a relatively homogeneous structure and outlook—and intra-Nordic trade increased by 100% between 1959 and 1966.

This was a rate of growth which could not have been forecast. All four countries are competing industrial economies, and this fact prevented the realization in the '50s of the plans for a Nordic Common Market, due to the usual protectionist fears. The Nordic countries achieved their free trade area, however, under the wider umbrella of EFTA and found to their surprise and gratification that the enlargement of their markets more than compensated for their loss of protection. It should be noted that the great majority of the new trade between the Nordic countries is in manufactured goods, based on a high degree of specialization and producing a great extension of consumer choice.

Many more figures could be produced, if desired, to illustrate the successful effect of the adoption of free trade in EFTA, but what has been said above should suffice for the purposes of this paper. It may be noted, however, that the free trade argument is supported in reverse, so to speak, by what has recently been happening to trade between the EFTA countries and the six members of the EEC. This trade held up very well up to 1964, but thereafter the effect of the barrier between the two markets began increasingly to be felt, and trade between the two groups ceased to grow as fast as before. This is, of course, one of the main reasons why the majority of countries in both groupings are anxious to enlarge the Community and thereby to obtain the even greater advantages which would flow from a single Western European market of almost 300 million population.

It is recognized, of course, that certain safeguarding measures are necessary to make the process of trade liberalization as smooth as possible. One example is the special timetable which was given to Portugal in EFTA, based on the realization that many Portuguese industries are still at a very early stage of development and cannot be exposed too quickly to free competition from outside. Another necessary safeguard is that the generally accepted timetable for the reduction of trade barriers should be long enough to enable businessmen to make the necessary adjustments. In EFTA the total timetable was originally set at nine and a half years; it was later shortened without difficulty to six years. The essential thing is that sufficient time should be allowed for new investment and marketing decisions to come into operation. It is also necessary, of course, that provisions should exist for the retraining and relocation of work people who may be displaced by competition. It has not been found in EFTA in practice that this constitutes a serious problem, since most EFTA countries have been very short of labor in recent years. In any case, such factors as automation, new processes and new products seem to mean much greater structural changes in industry than a growth of imports. It is therefore a matter of seeing to it that arrangements for retraining and relocation can also cope with needs arising from free international competition. But it should be stressed again that, by and large, industries in EFTA have not encountered the difficulties which they feared at the outset. The number of complaints has been very small; the number of requests for special treatment has also been small and has been dealt with satisfactorily on the basis of common-sense compromises. Where exceptions have been allowed to the tariff reduction timetable, they have been limited in scope and in time.

It may be observed also that success in the abolition of the more obvious barriers to trade, tariffs and quota restrictions, has also caused the EFTA governments to tackle non-tariff barriers, whose effects might become more serious once tariffs and quotas are out of the way. As a result of a process of successful negotiation,

agreement has already been reached in EFTA whereby the governments, when they are in agreement about the harmful effects of a restrictive business practice, will use the legislative and administrative means available to them in order to try to abolish the practice. In these circumstances EFTA governments will thus try to prevent their own nationals from impeding the growth of EFTA trade. Similarly, even though EFTA industries now enjoy no tariff protection from their EFTA competitors, their governments are also committed over a fairly wide area to ensure that government purchasing agencies and other public undertakings in EFTA should not discriminate against suppliers from other EFTA countries when they purchase goods for which tariffs have been abolished.

Work is now proceeding to make EFTA a complete free trade area by eliminating barriers arising from patents, compulsory and other standards, labeling and so on. It should be noted, however, that there is no tendency to seek purely EFTA solutions to most of these problems. The EFTA countries are trying to obtain and to subscribe to the widest possible international agreements, so that their trade with the rest of the world should not be impeded. There is also activity inside EFTA on the possibility of a multilateral double taxation agreement to cover all the EFTA countries.

Trade in agricultural goods and fish products is not covered by the rules for free trade in industrial goods, but is governed by special provisions in the Stockholm Convention. The EFTA objective in these two fields is to facilitate an expansion of EFTA trade in agricultural goods and fish products, and trade in them has as a result grown substantially.

The effects of economic integration on the prosperity of Western Europe and its citizens have been, of course, considerable. As a whole, the area has enjoyed a high rate of economic growth. The demand for labor over most of the period has been so high that large numbers of workers have been attracted from outside. As in other parts of the world, of course, the rapid rates of economic growth achieved have produced growing pains of varying severity, and governments have frequently had to step in to moderate growth in order to prevent too high a degree of inflation. By and large, prices have risen fairly steadily in Western Europe over the past twenty years, but not so rapidly as the rise in income; the rate of economic growth has been such as to take care of the amount of inflation generated. In these circumstances, it is difficult to give a simple answer to those who wish to know how the consumer has benefited from the process of tariff reduction. With all economic factors in motion, it is hard to analyze separately the effect of only one factor, the reduction of import duties. But a good deal of serious analytical work has been done in EFTA on this aspect and has led to the conclusion that the tariff cuts have in fact been passed on to importers and to consumers. It is clear that the prices of EFTA imported goods have tended to rise less rapidly than prices of similar goods of domestic production or from sources outside the Association, and also less rapidly than the general trend of prices in the member countries. In other words, the consumer is benefiting from free trade policies not only in terms of higher employment and wages but also in terms of greatly increased choice and more stable prices.

In drawing conclusions from EFTA's experience with free trade policies, it should be remembered that the total foreign trade of the group is as large as that of the United States. EFTA, with only 3% of the world's population, and 9% of the world's annual income, does 18% of the world's trade. The results are therefore those of a large-scale experiment.

And the conclusion seems obvious and clear. Free trade policies have shown themselves to be of great advantage to industry and trade, not only in the EFTA area but also for third countries. EFTA has been able to build its single market without erecting any new barriers to trade with countries outside the Association. Indeed, two-way trade between EFTA as a group and the rest of the world grew by 70% between 1959 and 1966. United States exports to EFTA almost doubled in the same period, from \$1.8 billion to \$3.5 billion.

The acceptance by EFTA that free trade pays was illustrated in the "exceptions lists" submitted by its member countries in the Kennedy Round. (These lists were of items on which the country concerned gave advance notice that it would not negotiate a 50% tariff cut, nor, perhaps, even any cut at all.) Five EFTA countries—Austria, Denmark, Norway, Sweden and Switzerland—made no exceptions. The United Kingdom submitted the shortest exceptions list of any major participant in the Kennedy Round, affecting only about 5% of her trade.

In short, the lesson of the EFTA experience is that advocates of liberal trading policies can now prove their case in practice. Advocates of protection by tariffs, quotas and levies have to face the fact that experience has proven their fears to be illusory, and even damaging in the long run to their own best interests.

Chairman Boggs. Mr. Younger, why doesn't General deGaulle want the United Kingdom in the Community?

Mr. YOUNGER. Mr. Chairman, you are in danger of receiving a long speech from me on a question as wide as that.

I feel myself that if you are talking of President deGaulle himself, his whole philosophical concept of what Europe ought to be, and what France's place in that Europe ought to be makes it very hard for him to accept the enlargement of the European Community, particularly by Britain and other North European, non-Latin countries. I think this is partly a cultural matter, quite apart from political interests. It is partly a question of maintaining Latin culture, the predominance of the French language, and so on. I think this goes back very deeply into his political attitude throughout the whole of his life, and that of the generation of Frenchmen of a particular political tradition to which he belongs.

Therefore I am inclined to discount many of the contemporary economic arguments which he uses against our membership. When he says, with some plausibility, that we ought to put our house economically in order, and that we ought to have a strong currency before we can be acceptable, I don't dispute that. But I feel fairly sure that if we did these things and became strong, he would like our entry even less.

Therefore, I have always taken a very pessimistic view of his personal attitude to British entry.

But I think that influence is bound in the nature of things to be more or less temporary.

Chairman Boggs. In the light of that attitude, when do you think you will get in?

Mr. YOUNGER. Well, I must say that it is likely to be a year or two. I have been in the habit of saying 1970. But it could take a little longer.

Chairman Boggs. If and when the United Kingdom comes in, will the other EFTA countries apply for admission?

Mr. YOUNGER. Certainly some of them will, and nearly all of them will want some kind of economic association, if they don't actually want to join. I don't think there is any doubt—

Chairman Boggs. Which ones in your opinion will apply?

Mr. YOUNGER. Denmark and Norway. I am not quite so sure about what the Swedish attitude will be. It used to be said that Sweden couldn't possibly aim for more than association, but even that is not quite so certain as time goes by. It depends largely on the strategic issue.

And then, of course, apart from EFTA there are other countries, like Ireland, which is not in EFTA, but which would also wish to join.

So that the British entry would certainly bring with it an enlargement of three or four others, say, at least.

Chairman Boggs. Do you envisage, with the growth of the Community, greater political strength in the Community?

Mr. YOUNGER. I think so, yes. I think the political aspects of the Community are likely to develop rather slowly. The emergence of common economic and foreign policy are slow growths. But I would think that a larger Community would have an inherently greater stability, probably from quite an early stage, even before the full economic benefits of a large Community had become obvious. I think from the point of view of the outside world that relationship with the Community should become easier with this country inside it, because there would be a larger element inside the Community than there now is with very widespread world trading ties. There are already very large and strong forces inside the Community that take a world view, but they would on the whole be strengthened by the enlargement of the Community.

Chairman Boggs. Dr. Peccei, would you like to comment on that question?

Mr. PECCEI. I share Mr. Younger's view that by 1970 we may come to have the United Kingdom in the Community. I think that it will not be a much larger Community than six plus one, say seven, because of the difficulty adapting the Community mechanism to a larger number of participants. If there are more than seven or eight countries, they will have to be somehow associated with all the benefits, but not represented in Brussels, because it would be too cumbersome. The Community would benefit immensely from the United Kingdom entry, politically as well as in outlook, and I think, also, to balance more the Saxons and the Latins.

Chairman Boggs. You will mix them up pretty good. Dr. Henderson, our staff economist, has a question for you, Dr. Peccei.

Mr. HENDERSON. Mr. Boggs has permitted me to address a question to you, Dr. Peccei.

I will be happy if you will comment on the role of the international corporation. As you know, the increasing share of world trade that is between affiliates must have some influence on trade policy. Does this influence go in the direction of making harmonization of national policies easier or more difficult? Does it go in the direction of making easier the policy that you mentioned of redistributing productive facilities?

Mr. PECCEI. First of all, I will answer that the international corporation is but one of many transnational movements.

There are so many transnational movements in Europe now going on, breaking through the State boundaries so that Europe may as well be built from below much earlier than might be expected. Some of these transnational movements may be found in the fields of culture, entertainment, sport, and music; others are now appearing in entrepreneurship. In Europe we feel that we are at a disadvantage with respect to the U.S. corporations which operate in our continent, because it is easy for them to define a unified European policy, or devise a unified European organization; while companies in Italy or Germany cannot have that if they do not acquire some kind of European status;

Pending the approval of a European corporate statute, there will be more and more European arrangements on the line of the Agfa-Gevaret deal.

Looking at this issue in more general terms, I think that the international corporation is one of the forces for the future, and we may expect that a much greater part of the world production will be accounted for by a limited number of international companies.

I think that this is one of the features of the future, and that the international corporation will have a stabilizing effect on world markets, be a prime factor for moving technology from one country to the other, and be a means of creating a new kind of international managers and staffs recruited in many countries.

There is afoot a movement to create a kind of club of the international corporations to foster the spirit of cooperation and competition on the open markets of the world. Thus, I think that we will see much more of the international corporations in the next few years.

Chairman Boggs. Thank you very much.

At Senator Javits' request we will insert in the record of today's hearing an address delivered by him in London.

On behalf of the subcommittee I would like to express our appreciation to both of you gentlemen for coming here and for the very splendid contributions you have made to our discussions.

The committee will now adjourn until Tuesday, July 18, We will meet at 10 a.m. in this same room. At that time we will have a panel of business executives.

The subcommittee will now adjourn.

(Whereupon, at 12 noon the subcommittee adjourned, to reconvene at 10 a.m., Tuesday, July 18, 1967.)

(The address of Senator Javits follows:)

BRITAIN AND THE FUTURE OF EUROPE*

The Middle East crisis which we are just passing through dramatizes a stark reality of the present world situation. The plain fact is that before hostilities began only the United States and the Soviet Union jointly could have prevented war and even thereafter a cease fire depended on agreement between them. By any standards—especially when possible nuclear confrontation between the two super-powers is always with us—this is hazarding too much for all mankind. Western Europe should be able to play a greater role than it does now in the maintenance of world peace outside of Europe. The world needs a Europe capable of playing its full role in world affairs; and the adherence of Britain to the European Economic Community is an essential element in bringing this about.

This, in my judgment does not call for a "third force" but rather for marshalling their full strength on the side of conditions that can bring peace by that group of nations which has a common tradition, a common state of society, and a generally common outlook on world conditions and the way to establish the rule of law to replace the rule of force.

It must also be frankly faced that many in the United States feel that the climate of policy now being created for Europe by President de Gaulle's France is hardly representative of Europe. We see a striking example of this in the tortured effort by President de Gaulle to make Israel the aggressor in the Middle East and to take the side of Arab leaders who have kept the Middle East a tinder box of war for 20 years. Nor can this be justified by strained and tautological reasoning regarding the struggle in Vietnam, as it relates to the Middle East. There is a world of difference between these two world crises. To suggest cause and effect simply ignores the fact that the Middle East has seen three wars in the last 20 years.

*Remarks of United States Senator Jacob K. Javits (Rep. N.Y.), at a dinner in his honor sponsored by The Pilgrims, Savoy Hotel, London, England, June 27, 1967, and released in London.

The presence of Britain in the European Economic Community and through it in Europe as a society, will, I believe, lend a far more European note to European world policy than the colouration General de Gaulle gives that policy now in a practically unchallenged way. The voice of Europe needs to be heard again, as such, and I doubt that this will happen unless Britain's European Economic Community application is successful. It is alarming for us in the United States to see one man, President de Gaulle, giving a twist to Europe on world policy as archaic as Metetrnich and as mischievous as de Gaulle. The rest of Europe wants Britain but President de Gaulle is unwilling to accept the competition of British leadership in policy-making with its wider vision and deeper insight.

But we, in the United States, I feel, have every interest in seeing Britain remain vigorous and becoming even more productive. The tremendous experience and skill which she has acquired during centuries in world affairs must continue to be utilised in the cause of peace and of regional and international co-operation. It dismays many Americans to see economic reasons compelling Britain to consider withdrawing from East of the Suez—and trimming back such of its responsibilities in Germany as it would otherwise carry. It is sad, too, that Western Europe is not playing its full part in co-operation with North America in providing needed assistance to the developing nations and in world trade, technology and science.

When will the people of Europe—and even the people of the United Kingdom—understand that my fellow countrymen do not glory in the responsibilities which they now carry so heavily in the world? When will they understand that we are more than anxious to share this responsibility—not only as to its burdens but also as to whatever benefits and glory it may bring? There is no imperial spirit in the United States. This should be clearly understood in Europe and in Britain.

By every measure Britain seems to me to have reached a crossroads of its national life. British industry needs modernisation both in terms of machinery and manpower. The requirements of maintaining a modern defence establishment and sustained domestic growth place a heavy burden on the British economy and Britain's balance of payments. It seems now to be widely accepted among the British people, whether Labour or Tory, that Britain must take steps to deal with the dangers of the erosion of British energies.

By taking the initiative to apply for Common Market membership, although long and difficult negotiations lay ahead, Britain signified its readiness to take the road that is more challenging. It is not every nation that invites competition to sharpen itself and enable it to compete in broader markets.

The American people, I feel, strongly support your government's decision to apply for Common Market membership and not only because British membership in the Common Market is vitally important to Britain in economic and political terms. In my judgment, the American people believe that this decision is vitally important to Europe as well, if Europe wishes to provide itself with the authority necessary to assume a significant share in the responsibilities of world leadership as well as to compete effectively in the world's markets.

Clearly, if Europe is to play a role commensurate with its traditions and combined power, the European Economic Community must include Britain and other European nations.

Beyond that, it is also my conviction that this greater Europe should eventually associate itself in some formal economic way with the other industrialised nations of the West. In our world, only these nations together possess the capital, the technical resources and manpower skills essential to the modernisation of the developing nations. Such modernisation, if accomplished in time, can win the race with the revolution of the have-nots, a revolution that often endangers world peace and is accompanied often by an erosion of freedom.

It should be kept clearly in mind, therefore, that the negotiations for United Kingdom membership in the European Economic Community are but one step in the process of forging closer links among Western European nations; and in turn, between Western Europe and the other industrialised nations of the free world, including the United States.

There will be those who will express serious doubt that under present conditions, Western economic unity can be established. I disagree. The successful conclusion of the Kennedy Round of trade negotiations in Geneva offers proof to the contrary. Here was a situation where the vital economic interests of the

EEC, the United States and the other industrialised nations were at stake. Yet when it was clear to these supposedly deadlocked negotiating trade partners that the price of failure was the unravelling of the entire painfully constructed fabric of Western multilateral trade co-operation, there was an agreement and an enormously significant one at that.

Europe (if it really wants to lay claim to the future), it seems to me, must work toward a single-minded objective. The development of a free trade area of the broadest possible grouping of the industrialised nations of the free world (International Free Trade Association) who have the capacity to compete with each other on relatively equal terms in brains and skill and equipment. An Atlantic Free Trade Area can lead to the broadest possible exchange of goods, people, and ideas, in order to stimulate maximum production and the maximum power in the interests of a free and prosperous world. Such a development is as inevitable as the tides, and I suggest it will be a reality in 10 to 15 years.

The next few months will determine whether the first step in that process—i.e., the UK joining Europe economically—will be taken. But even if this step should fail, Britain can still leapfrog the stage of European Economic Community membership by the helping to form, and then joining an Atlantic Free Trade Area. Eventually, the European Economic Community will come along and accept Britain into membership or join such an Atlantic Free Trade Area itself.

It is for these reasons that I believe so deeply that whatever occurs within the coming months, a full examination must be made of the Atlantic Free Trade Area proposal. This is necessary to enable Britain to size up the Atlantic Free Trade Area as an alternative to joining the EEC, should an alternative become necessary. Such an examination would also serve to assess the costs and benefits to Britain involved in EEC membership, as the costs may very well be high indeed—if President de Gaulle has his way. Proper contingency planning may well strengthen Britain's bargaining position and therefore its chance of entry into the European Economic Community on favourable terms. And should admission be denied it—such planning would leave Britain in a much stronger position for facing the future. For, although an Atlantic Free Trade Area is not the preferred alternative, it is by no means without benefit to Britain for the same economic reasons for which it wishes to join the EEC.

What would be the principal benefits of an Atlantic Free Trade Area? It would create a single competitive market among the United States, Canada, and other industrialized countries of the West—not in the EEC—some from the European Free Trade Association, some from the Commonwealth—through gradually lower tariffs and other trade barriers on manufactured products and raw materials over a 15 to 20-year period. At the end of this period there would be substantially free trade within this area with special arrangements made to assure access to this market by developing countries which agree to the rules of the Atlantic Free Trade Area.

According to estimates I have seen, the principal benefits in trade terms would accrue to the United Kingdom and Canada rather than the United States. It would provide "a home market" for the UK certainly equal to that which would be offered by the EEC (the total trade of the UK with the EEC in 1966 was 2.1 billion pounds sterling as compared with a little over 2 billion pounds sterling with North America) and it is reasonable to expect that the UK's trade with North America would expand at least at the same rate as that with the EEC. It would free Britain of many of the obsessions and restraints incident to Britain's position now as an economic "loner". Indeed, the alternative might also have a salutary effect on the European Common Market, in enabling it to reject the counsels of those who seek to make it an exclusive protectionist trading area rather than an effective part of a liberal world trading system.

I don't agree with those who feel that in a situation of free competition, U.S. firms would drive British firms out of business or that they would take over key industrial sectors in the United Kingdom. To a large degree U.S. technical superiority in certain industries would be offset by lower wages in the United Kingdom, including the costs of scientists and research.

There would be new American investments in Britain and a new infusion of technology via joint ventures—but this would contribute to the increase of Britain's rate of economic growth. It is entirely possible, however, that the United States investments in the UK may in fact slow down from past trends. The relatively high UK tariff on manufactured goods may have caused

some U.S. capital to "jump" this barrier to U.S. exports. The removal of this barrier might slow down the capital flow. On the other hand should the UK begin to grow at an accelerated rate, U.S. investors, especially by direct investment, may consider UK investment opportunities enhanced and the U.S. capital inflow may increase.

An Atlantic Free Trade Area would also create conditions which would strengthen sterling as an important trading currency and as one of the two key reserve currencies. It would be important to the world economy to continue a significant role for sterling; at least until the international monetary system is reformed to relieve the heavy pressure on the dollar and sterling. Our interest in the continuation of a role for sterling is not entirely unselfish. Should there be any general movement to shift reserves away from sterling to dollars, the effect would be to place tremendous additional burdens on the dollar and thereby to challenge the ability of the United States to maintain the free convertibility of a dollar into gold at \$35 an ounce. In the absence of new sources of international liquidity, a crisis of confidence in the dollar could cause a serious economic crisis in the world economy.

I have heard much talk about a 51st state if Britain must accept an alternative to the EEC. This is an invention of Britain's isolationists or Europhiles and is demeaning to and contemptuous of Britain, its people and its history and the United States, its national identity and its honour. What is more to the front is that Britain should not wait to the eve of disaster before joining in integration of the Atlantic economy as did Churchill in his call for union with France on the eve of the blitz.

Every person on both sides of the Atlantic who is in authority and of mature years has a great stake in the current course of Britain. Will we be good trustees and hand on a better and more unified world to our successors or will we be enmeshed in our own inability to agree and hand on a poorer and more disorganised world? This is the question that we must ask ourselves at this critical moment in the history of Europe.